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EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

SUGAR BEET
Refined arguments
go to Brussels
Page 30

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World News Business Summary

Violence mars eve of Middle East peace talks

Two Israeli settlers were shot dead and five wounded in an ambush on a bus in the occupied West Bank, less than 48 hours before Middle East peace talks were to begin in Madrid.

The death of an American soldier and the wounding of an Egyptian diplomat in car bomb blasts in Ankara, Turkey, were also linked to the talks. Page 22

Polish state elections

President Lech Walesa of Poland must today start forming a new government after Sunday's elections created a fractured, multi-party parliament of more than 10 parties. Page 4

Greek PM faces crisis

Greek premier Constantine Mitsotakis faces growing criticism over failure to solve serious economic problems and his own image as a leader. Page 22

Pentagon fraud charges

Eight former executives of a Florida defence firm, including retired four-star army general Wallace Nutting, and two ex-civil servants, were indicted in Tampa, Florida, on charges of defrauding the Pentagon of more than \$40m in a contract for ammunition fuses. Page 4

Republics give pledge

Twelve Soviet republics, under strong pressure from Group of Seven representatives, agreed a commitment to share responsibility for the Soviet Union's existing foreign debt. Page 4

Foreign editor sacked

Nicholas Davies, foreign editor of the Daily Mirror in London, was sacked over untrue denials of a visit to Ohio. The move followed the launching of an internal inquiry into allegations linking him to US arms dealers and Israeli intelligence. Page 6

Airline 'bleeding'

The airline industry is bleeding to death following a huge increase in costs as a result of the Gulf war, International Air Transport Association director-general Gunter Eser said in Nairobi. Page 6

Usterman sentenced

Three Northern Ireland Protestant extremists and an American arms dealer were given suspended sentences in Paris for trying to sell South Africa an anti-aircraft missile. Page 6

Havel shouted down

Czechoslovak president Vaclav Havel left the rostrum at a political rally in Bratislava when tense Slovak nationalists shouted him down. Page 6

Mulroney withdraws

Canadian premier Brian Mulroney formally withdrew his name from consideration for the post of UN secretary general. Page 4

France shuts consulate

France closed its consulate in Zaire's second city of Lubumbashi after evacuating all its nationals. Last-ditch talks to avoid chaos, page 6

Wives win the vote

Wives won the right to vote in Algeria's first multiparty general election when the constitutional council threw out a law that would have let husbands vote in their place. Page 6

Baltics go for gold

The newly-independent Baltic states of Estonia, Latvia and Lithuania are to demand compensation for Baltic gold deposited with the Bank of England before the Soviet occupation of 1940. Page 4

Backing for Menem

Argentina's ruling Peronist party should hold three of the six provincial governorships at stake in elections which have provided backing for the economic reforms of President Carlos Menem. Page 4

London stocks see biggest one-day rise in two months

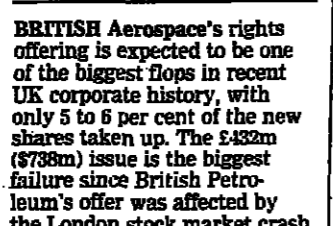
The London stock market saw the biggest one-day rise in share prices for two months arising from hopes of a brighter outlook for the economy. In spite of increased investor interest in equities, trading volumes were low and the rise in prices lacked momentum.

The FT-SE 100 index of leading stocks closed at 2,558.5, up 43.8 on Friday's close. The rise was about half the drop in prices last week, and the market now stands at about the same level as in mid-August, when it last experienced a comparable one-day increase.

On Wall Street, the Dow Jones Industrial Average gained 40.70 to 3,045.62, after fresh hopes of lower interest rates when Alan Greenspan, Federal Reserve chairman, said the economy had turned sluggish. Page 12, Page 22.

Limited room for manoeuvre. Page 21; London stocks, Page 31; Wall Street, Page 42

FT-SE 100 Index



Source: Datastream

BRITISH Aerospace's rights offering is expected to be one of the biggest flops in recent UK corporate history, with only 5 to 6 per cent of the new shares taken up. The £432m (£738m) issue is the biggest failure since British Petroleum's offer was affected by the London stock market crash of October 1987. Page 23

US ECONOMY: Federal Reserve Board chairman Alan Greenspan told a Rhode Island business conference that the economy had lost steam and the recovery had slowed. Page 4

LUCAS Industries, UK automotive and aerospace components group, forged a long-term partnership with the aero-engine division of General Motors of the US in a deal which could be worth up to \$3bn in export orders for the UK company in the next 20 years. Page 22

JAPAN Airlines ordered 20 of Boeing's new 777 twin-engine wide-body airliners, worth about \$2bn. Page 7

TRADE: negotiators in the North American free trade talks said they are ready to start on the treaty text. Page 7

DAIMLER-Benz, Germany's biggest industrial group, confirmed that it plans a rights issue, possibly for DM2bn (\$1.1bn), for the second half of next year. Page 23; Lex, Page 22

BANCOMER, Mexican bank, saw the government sell 51 per cent of the equity for \$2.55bn. Page 23

RWE, German conglomerate, saw annual profits rise 10 per cent to DM863m (\$504m) after the oils and chemicals division, recently expanded by the \$60m acquisition of Vista Chemicals of the US, contributed to better turnover and profits. Page 23

ELKEM, Norwegian light metals producer, saw losses deepen further, before extraordinary items, in the first nine months of the year, after the loss of Nkr40m (\$6.1m), against a Nkr40m deficit in the previous corresponding term. Page 24

GENCOR, South Africa's second largest mining house, plans a R2bn rights issue in spite of a decline in attributable income to R1.4bn (\$490m) from R1.48bn. Page 25

Dutch offer UK chance to opt out on fiscal union

By David Buchanan in The Hague

THE Dutch presidency of the EC last night tabled a monetary union treaty giving Britain a let out, but said it hoped no EC state would opt out of the commitment to a single currency.

Mr Wim Kok, the Dutch finance minister, said he would ask all EC governments, including the UK, to sign a declaration at the Maastricht summit in December, to "express their strong preference for a swift transition" to the final stage of economic and monetary union (Emu).

The Dutch draft treaty allows any state whose "parliament does not feel able to approve the irrevocable fixing of its currency", to opt out by seeking "exemption".

Mr Kok said any state, not just Britain, could avail itself of this let out. But he clearly hopes to court the possibility that certain leading EC members, perhaps Germany, might take advantage of this by getting them to sign up to the Maastricht declaration which would accompany the Emu treaty.

Signatories to this declaration would state that "it is their strongest intention to participate in Emu without exemption", according to a draft text published last night. Mr Kok conceded that even signatories to such a declaration this year "might have another opinion after hearing their national parliament" later in the 1990s.

The Dutch presidency does not expect its draft Emu treaty

- The Dutch dare to tackle currency question head-on; Full accord evades central bank governors on monetary institute; UK should not opt out, says Heath, Page 2
- EU looks for its place in the line of defence, Page 3
- Joe Rogaly: Ace in the hole, Page 21

to suffer the same ignominious fate as its political text which was recently thrown out by 10 of its 11 EC partners. But he admitted that there were still important disagreements, such as the degree to which countries that were neither economically ready nor politically willing to participate in the final stage of Emu could play a role in the planned European Central Bank (ECB).

"The last word has not been spoken on this", Mr Kok said. He was sure that a number of governments and central banks might take issue with the Dutch compromise. This would deny a full vote in the ECB to countries not participating in Emu, but would give governors of their central banks an advisory role in the ECB. The Dutch presidency has also launched an 11th-hour bid to give the European parliament a role in amending secondary legislation that would flow from Emu, and to

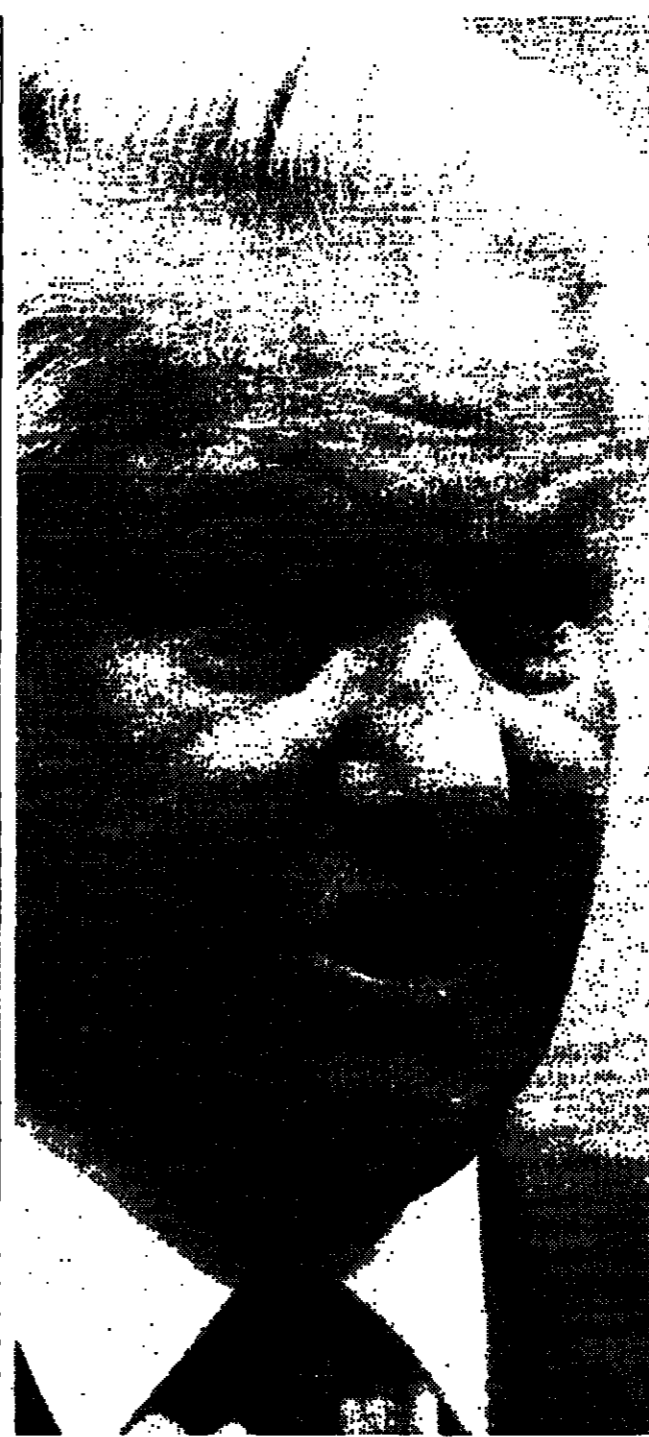
strengthen the European Commission's role vis-a-vis that of the ECB and that of the Council of Ministers - in running the common monetary policy. Mr Kok said it was important to make Emu democratic, but some of his partners will feel this risks exposing the independent ECB to political pressures.

In order to sidestep an essentially Franco-German argument over whether and when the ECB should be established in the 1994-97 transition, the Dutch have proposed that a European Monetary Institute (EMI) should be set up for the whole duration of the transition.

But even yesterday the central bank governors of the 12 were unable at their meeting in Basle to give the presidency a clear view on who should direct the EMI.

Another key issue has been the degree of economic convergence required of states wanting to join Emu.

The Dutch have proposed that no state should be fit for Emu, unless it has an inflation rate within one-and-a-half percentage points of the inflation rate of the three best performing member states in terms of price stability and long term interest rates of no more than two percentage points above the three best performing EC economies. In addition it must have kept its currency, without any devaluation, within the narrow band of the Exchange Rate Mechanism for at least two years. end



Boris Yeltsin: His decision yesterday to free state-controlled prices was the 'most difficult' of his life

Russia braced for massive price rises

By Leyla Boulton and John Lloyd in Moscow

PRICES in Russia could rise between two- and four-fold this winter as a result of reforms being pushed through by President Boris Yeltsin.

Mr Yeltsin called for the mobilisation of the Russian people in readiness for a winter of unprecedented market reform. In what he called "the most difficult decision" of his life, he announced plans to free state-controlled prices at a stroke this year, and to take personal charge of setting up and running a government of "national confidence" to implement sweeping reforms.

Mr Yeltsin presented the package to an extraordinary session of the Russian Congress of Peoples' Deputies, the supreme legislative body.

His decision to put his own authority and reputation behind the programme was criticised by some deputies who feared the powers he asked for carried an overly authoritarian stamp.

However, most deputies in the democratic camp afterwards expressed support.

The Russian leader promised there would be a safety net to protect the poorest sections of society from the effects of price reform - for which he gave no exact date.

He promised a tough anti-inflation policy, involving sharp spending cuts in defence, the state administration and subsidies to unprofitable enterprises. The budget deficit would be cut to almost zero by Continued on Page 22

Baltics go for gold, Page 4
Republics' pledge, Page 4
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Yeltsin's bitter pill, Page 21

Dubrovnik stands firm against advancing federal army

THE inhabitants of Dubrovnik vowed yesterday to defend their besieged Adriatic city in the breakaway republic of Croatia despite the rapid advance of the Yugoslav federal army and deteriorating sanitary conditions.

"It is a clash between culture and barbarians," said Mr Pero Poljanec, the mayor of Dubrovnik, referring to the army assault and the month-long siege which has cut off water, electricity and telephone lines.

The federal army yesterday appeared to violate a four-day-old ceasefire agreed between it and Dubrovnik's officials, when soldiers moved forward towards Dubrovnik to Zarkovica, a hill just beyond the gates of the old city.

The soldiers hoisted a Yugoslav flag as a reminder to the independence-minded Croats.

"I am shocked that the world and Europe have permitted this kind of crime and aggression against this city of great importance... we will never surrender," Mr Poljanec said.

Dr Zoran Cikanic, director of the city's hospital, warned of the imminent danger of epidemics spreading through the town. He said the situation "is critical for refugees in hotels without water. Infection can easily spread."

By Laura Silber in Dubrovnik

Officials estimate 15,000 people from neighbouring war-torn regions have sought refuge in Dubrovnik.

But the mood remains defiant among the city's population. People are refusing to surrender to an army ultimatum to hand over their weapons.

Mr Neven Matana, a Croat national guardman dressed in combat fatigues, said: "We don't have enough ammunition. We have no heavy artillery, but we will fight."

Another Croat soldier, named Han, a Slavic Moslem volunteer from

neighbouring Bosnia, said: "We will defend Dubrovnik to the last man."

Hundreds of people stand in the sunshine on the white-washed stone Stradun, the main pedestrian zone in the heart of the medieval walled city.

They point to buildings, the Rupe museum and the music school, which last week were damaged by army grenades. They have boarded up and sand-bagged treasured Venetian Gothic churches.

The stench of human excrement pervades the city. The sewage system has stopped working because of diminishing water supplies.

Despite continuing ceasefire negoti-

ations, no one yesterday appeared to believe in the possibility of a lasting peace between the army and local Croat officials.

"I don't believe in those ceasefires. Every time there is an agreement, the army comes and shoots," said a woman who, fearing retaliation, refused to give her name.

"The aggression against Dubrovnik is Serbia's revenge. The army wants to use the city as blackmail regardless of the world's outrage," she said.

Mrs Sara Marojica, honorary British consul in Dubrovnik, said: "People here are very proud of their Continued on Page 22

Renault output crippled by strike at engine plant

By William Dawkins in Paris

RENAULT CAR production at six French and one Belgian factory was halted yesterday because of a strike at one of the French state-owned car-maker's main component plants. The factories affected employ a total of 40,000.

Production will also stop today for five days at the Dutch factory of Renault's partner, Volvo, where another 8,000 people are employed. The Swedish group can no longer obtain Renault-made engines for its medium-sized 400 series.

The 10-day pay strike, a spectacular example of how quickly industrial action can cripple companies with tight stock controls, has cost Renault "several hundred million francs" and will "seriously jeopardise" this year's results, according to Mr Michel Praderie, the group's secretary-general.

It will lead to shortages in showrooms and could lose market share, he said. France alone represents 60 per cent of group's car output.

The group last year reported a steep fall in net profits to FF1.2bn (\$200m) from FF9.3bn in 1989.

Mr Raymond Lévy, Renault's chairman, condemned the blockade by the communist CGT union, as illegal intimidation in a letter to employees. The group called on public authorities to lift the CGT pickets outside the Cléon plant, west of Paris, which makes gearboxes for the whole Renault range as well as small and medium-sized engines.

Matra, producer of the Renault Espace family van, which uses gearboxes from Cléon, had to stop for two days last week but plans to restart production at a reduced rate today after importing fresh supplies from Chile.

There was no sign of compromise yesterday, with the management refusing to renegotiate a 2.5 per cent pay rise which it says was agreed with the main unions in July. The deal did not, however, have the agreement of the CGT, which has been on the offensive since it lost its majority earlier this year on Renault's works council for the first time since its post-war history.

Mr Praderie said Renault would talk to the CGT on "specific problems" once it lifted its pickets. He said 63 per cent of the Cléon plant's employees had signed a petition saying that they wanted to return to work, but dared not cross CGT picket lines.

Renault, like its competitors, has sharply reduced components stocks since the mid-1980s, slimming its working capital needs by FF5bn over the past five years, estimates Mr Praderie.

At the same time, however, the group has been less quick than Japanese competitors to diversify its sourcing by buying components from outside suppliers. On average, half of each Renault car by value is sourced from in-house, according to its own figures, as against the Japanese norm of 30 per cent to 40 per cent, a components industry official estimates.

German car parts, Page 5

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MARKETS

STERLING New York close \$1.8940 (1.694) London \$1.7038 (1.7115) DM2.91 (2.9125) FF4.925 (same) SF2.5225 (2.545) Y225.0 (same) £ index 90.3 (same)	GOLD New York: Comex Dec \$380.80 (382.70) London \$359.0 (361.75) N SEA OIL (Argus) Brent 15-day Dec \$21.775 (21.80)	DOLLAR New York close DM1.7785 (1.7182) FF5.8395 (5.8805) SF1.5085 (1.5088) Y132.315 (132.3) London DM1.7080 (1.7015) FF5.8325 (5.805) SF1.4985 (1.4875) Y132.15 (131.4) £ index 90.3 (same) US CLOSING RATES Fed Funds 5 1/8% (5 1/8%) 3-mo Treasury Bill yield: 5.083% (5.114%) Long Bond 100-3 (100%) yield: 8.021% (8.082%)	STOCK INDICES FT-SE 100 2,558.5 (+43.8) FT-95 EuroStoxx 100 1,097.04 (+5.79) FT-A All-Share 1,233.69 (+1.4%) New York close DJ Ind. Av. 3,045.62 (+40.70) S&P Comp 389.52 (+8.32) Tokyo: Nikkei 24,801.72 (-4.71)
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THE DRAFT EMU TREATY

The Dutch dare to tackle currency question head-on

By David Buchan in The Hague

THE ONE big difference between the Dutch government's 33-page draft treaty on economic and monetary union (Emu), released last night, and the one issued by Luxembourg earlier this year is that the Dutch have at last faced full square the problem of how the Twelve are to take the fateful decision, in the late 1990s, to go for a single currency.

In essence, the conundrum is how to give Britain a let-out, without creating a bolt-hole through which others might escape their Emu commitments.

In other respects, too, the Dutch have not wasted the past four months of their presidency. They have expanded on the economic criteria which countries must meet to be judged fit to enter the final stage of Emu, which will be first attempted in 1997.

They have refined the necessary economic discipline which countries must obey once in the monetary union. They have given the European parliament a bit more of a role, and have sought to soothe the worries of weaker EC economies by stitching together a safety net for countries with transitional adjustment problems.

But the key provisions, on which the six weeks of negotiations remaining before the December summit in Maastricht will focus, concern:

● The transition. This period will last at least until end-1996, when the European Council, as the EC summit organisation is known, will decide whether the time is ripe for Emu, and, if so, when precisely it should start.

To be considered fit for Emu, a country must have a rate of inflation "close to that of the

at most, three best performing member states in terms of price stability", have a "sustainable" budget position, without any "excessive" deficit, have kept within the narrow band of the exchange rate mechanism for at least two years; must have the durability of its convergence reflected in its long-term interest rates. These criteria are elaborated in separate protocols.

States which cannot meet these economic criteria but

'Exemption status' is reserved for Britain and, conceivably, any countries which might come to share its dim view of Emu.

which want to join Emu would get a "derogation", or temporary exemption. But formal "exemption status" is reserved for Britain and, conceivably, any countries which might come to share its present dim view of Emu.

For the first time, formal treaty language has now been tabled which states: "The Council [of ministers] shall not oblige a member state to participate in the third [final] stage if a member state has notified to the Council that the national parliament of the member state does not feel able to approve the irrevocable fixing of its currency at the provisional date [for Emu]." Any such state will get "an

exemption". Nowhere in the Dutch draft is this exemption status specifically limited to the UK. Therefore, Mr Wim Kok, the Dutch finance minister, is suggesting that Britain's partners might like to sign up to a solemn declaration at Maastricht, which would commit them politically to going right on to the end of the Emu road.

The European Council could only opt for Emu if there were at least seven countries ready and willing for the single currency. It would only go ahead if no more than five of the 12 EC states had derogation or exemption status.

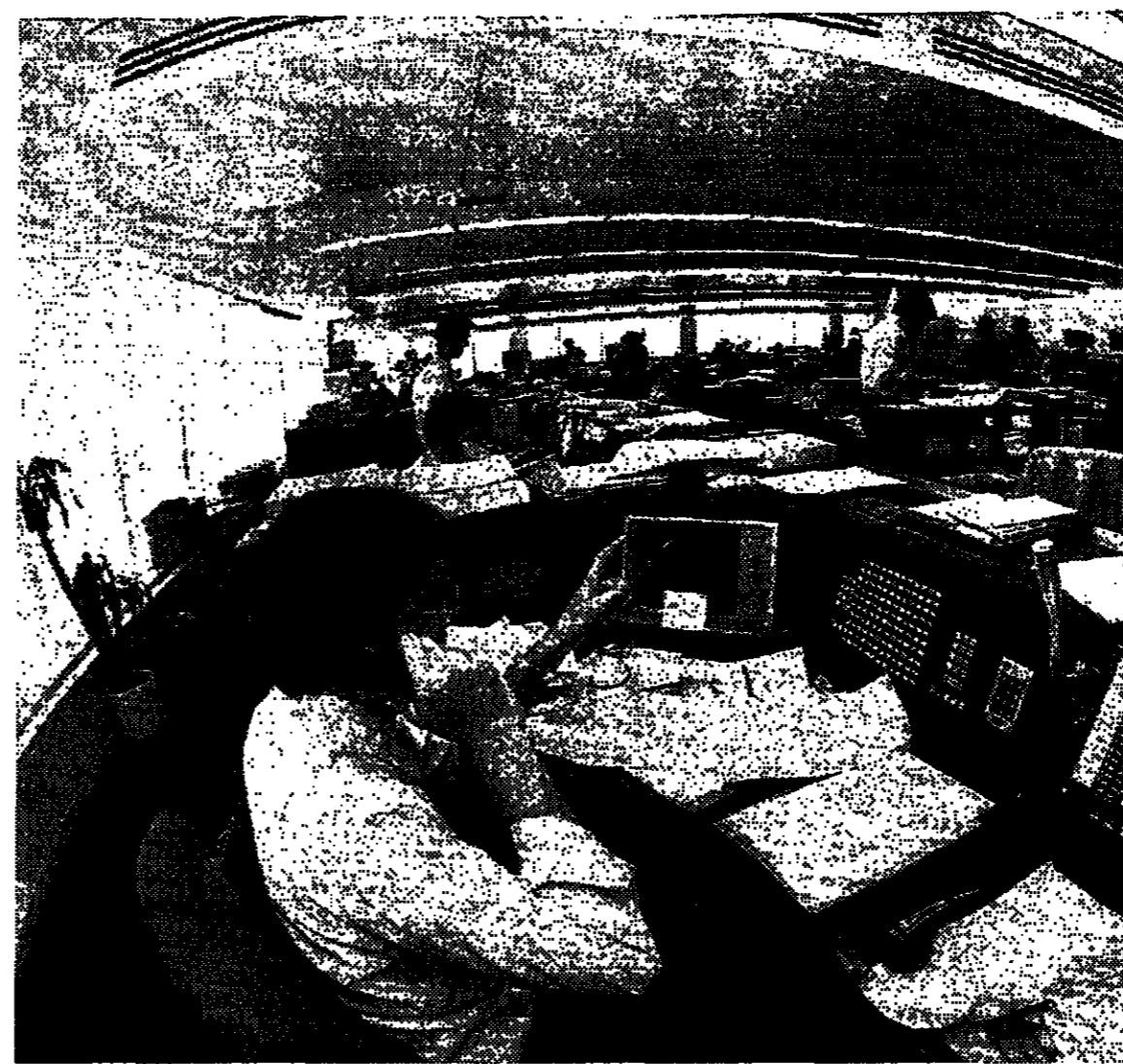
If an EC summit failed to decide on Emu in 1997, it would, according to the Dutch, try every couple of years thereafter to succeed.

Moreover, "at least once every two years" a country could apply to the Council to have its derogation status expunged, while Britain would apparently be able to apply at any time to withdraw its exemption status.

The Dutch have also sought to ease the worries of the EC's weaker economies about being shut out of Emu for a long time by offering to review their cases once every two years after Emu has started.

● Monetary Union. The European Central Bank would have a six-person executive board "including its president and vice-president", who would be elected for eight years and who would run the federal banking system day to day.

The 12 governors of national central banks, whose terms would run for "not less than five years" (so as to be longer than the average parliamentary term and thereby insulate



Currency traders: is the writing on the wall as they face up to the prospect of a single currency for the European Community?

them from swings among governments), would also sit on the ECB's board.

Their duties would be to "define and implement" the ECB's monetary policy, to conduct foreign exchange operations, to "hold and manage the official foreign reserves of the member states", to promote the "smooth operation of payment systems, and to contribute to a smooth conduct of policies relating to prudential supervision of credit institutions and the stability of the financial system".

So far, little head has been paid to the ECB's watchdog role over ordinary banks. But there are macro-economic stip-

ulations in the draft treaty which would forbid the ECB giving prodigal governments overdrafts or bailing them out.

The Dutch draft does try to tackle the question of who the ECB or the Council of Ministers - should set foreign exchange policy.

The issue is sensitive, because of fears, by Germany in particular, that the ECB might be directed to support a given rate of the Ecu against the dollar, which might lead to the creation of too many Ecus and thus to inflation, the designated number one enemy in the new system. The Dutch text says the Council should, "after consulting the ECB in

an endeavour to reach a consensus consistent with the objective of price stability, determine an exchange rate agreement for the Ecu vis-à-vis other currencies".

● Economic union. The key questions here are the definition of what is an excessive budget deficit, and what to do about it.

Countries which run an annual deficit exceeding 3 per cent of their gross domestic product, and whose public debt amounts to more than 60 per cent of their GDP, would be considered to have run into the danger zone. These limits are controversial, since at present only three EC states, one of

them Britain, could meet the first criterion, while Belgium, Ireland and Italy currently have a debt that is 100 per cent or more of their GDP.

But most controversial of all is what Germany calls the golden rule - that a deficit should never exceed capital expenditure. The latter is hard to define, and, even if it was not, developing countries such as Portugal argue they need to spend more to try to catch up mature economies, like that of Germany. The Dutch text simply says that in making its assessments the Commission should take into account whether a country was also breaking the golden rule.

EMU at a glance

■ Let-out for Britain and any state whose parliament "does not feel able to approve the irrevocable fixing of its currency."

■ Strict economic criteria for the final stage of EMU. Countries unable to meet these would get a "derogation" which would be reviewed every two years.

■ Minimum of seven countries needed to form EMU.

■ European Central Bank run by six-person directorate, plus governors of the 12 national central banks who would be independent of their governments.

■ The composition of the existing basket ECU would be frozen, until such time as the ECU became a single currency in its own right.

■ Limits to prevent countries running excessive budget deficits once they were inside EMU.

■ Sanctions on countries continuing to run excessive deficits. These would include refusal to endorse their borrowing prospectuses, cutting them off from EC loans, and fines.

UK should not opt out, says Heath

By Ralph Atkins

BRITAIN should not exercise any right to opt out of EC plans for a single currency, despite opposition to monetary union of many right-wing Tory MPs, Mr Edward Heath, the former Conservative prime minister, said last night.

Mr John Major should give "bold leadership" on European monetary, economic and political union, he added, dismissing as irrelevant the protestations of Mrs Margaret Thatcher and Mr Norman Tebbit, former Tory party chairman. Mr Heath's comments on Channel 4 television looked set to harden battle lines at Westminster, coming near explicit criticism of Mr Major as failing to take on his party's right wing.

Mr Neil Kinnock, Labour leader, said ministers were conducting policy towards the EC "not on the basis of what is best for Britain but on the basis of what will keep the cracks in the Tory party as

obscure as possible."

Mr Heath argued Britain may sign up to a deal with an opt-out clause at the Maastricht summit in December but the government should make plain it did not intend to use it.

"We can't be at the centre if we opt out of these vital activities" of the EC, Mr Heath declared, ahead of a dinner in London last night to mark the 20th anniversary of the Commons vote under his premiership for Britain to join the EC.

Maastricht was a chance for Mr Major to show he was standing by his pledge that Britain would take a constructive role in Europe, Mr Heath went on. He rejected suggestions a deal could be postponed until next year. Earlier, Downing Street said the UK was not deliberately asking a second summit in London in 1992.

under Portugal's EC presidency, the Dutch, the current holders, hoped to reach complete agreement in December.

Mr Heath's comments come as Mr Major prepares to confront critics in his own party in the Commons debate in the run-up to the Maastricht summit. The PM's job was to "give leadership on big issues. Like this... As far as the right wing are concerned, they have always objected, they will always be there, and say as Europe is concerned, we haven't taken any notice of them," Mr Heath said.

Treaty seeks sustainable, non-inflationary growth



THESE are highlights of the draft Emu treaty.

Article 2: The Community shall have as its task, by establishing a common market and economic and monetary union...

... to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment, the raising of the standard and quality of living, and economic and social cohesion and solidarity between member states.

Article 3A: ... these activities shall include the irrevocable fixing of exchange rates between the currencies of the member states leading to the introduction of a single currency, the Ecu, the definition and conduct of a single monetary and exchange rate policy...

Article 104B: Member states shall avoid excessive government deficits...

Where the existence of an excessive deficit is established... the Council shall make recommendations to the member state concerned with a view to bringing that situation to an end within a given period... In cases where a member state persists in failing to put into practice the recommendations, the Council may decide to give notice to

the member state concerned to take, within a certain time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.

Where it establishes a failure to comply with a decision it has taken... the Council may decide to apply one or more of these measures:

● To declare the provisions of directive 89/298/EEC applicable to securities issued by the member state concerned and its regional and local authorities. The decision shall lay down detailed rules for its application;

● To issue a recommendation to the EIB to declare the member state concerned ineligible for further EIB borrowing;

● To require that the member state concerned make a non-interest-bearing deposit of an appropriate size with the Community until the excessive deficit has, in the view of the Council, been corrected;

● To impose fines of an appropriate size;

● To suspend new commitments by the Structural Funds in the member state until the excessive deficit has, in the view of the Council, been corrected.

Article 105: The primary objective of the European System of Central Banks (in this treaty called "ESCB") shall be to maintain price stability.

The basic tasks to be carried out through the ESCB shall be:

● To define and implement the monetary policy of the Community;

● To conduct foreign exchange operations consistent with the provisions of Article 106;

● To hold and manage the official foreign reserves of the member states;

● To promote the smooth operation of payment systems;

● To contribute to a smooth conduct of policies relating to the prudential supervision of credit institutions and the stability of the financial system.

The ECB (European Central Bank) shall have the exclusive right to authorise the issue of notes within the member states. The ECB and the national central banks may issue notes. The notes issued by the ECB and the national central banks shall be the only notes to have legal tender status within the member states.

Article 109: The Council may, acting (by a qualified majority or on a proposal) (on a recommendation which the Council shall adopt or amend by qualified majority) from the Commission or from the ECB and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, determine an exchange rate agreement for the Ecu vis-à-vis other currencies, including, in particular, the adoption, adjustment and abandonment of central rates.

Article 109B: From the start of the second stage, the currency composition of the Ecu basket shall be irrevocably fixed according to the decision-making procedures as laid down within the framework of the European Monetary System.

Article 109C: The Council shall not oblige a member state to participate in the third stage if a member state has notified to the Council that the national parliament of the member state does not feel able to approve of the irrevocable fixing of its currency at the provisional date. Such a member state shall be exempted from the decision as mentioned above, and will in this treaty be called "member state with an exemption".

MAIN INDICATORS OF NOMINAL CONVERGENCE PROBLEMS IN THE COMMUNITY IN 1991

	INFLATION		PUBLIC FINANCES		EXTERNAL ACCOUNTS	
	Deflator of private consumption	Nominal unit labour costs	Gen gov net borrow requirements (% of GDP)	Public debt as % of GDP	Current account balance (% of GDP)	National Savings (% of GDP)
Belgium	3.2	3.4	6.5	128.1	0.6	1.1
Denmark	2.4	1.4	1.3	62.3	-0.1	1.6
Germany	3.5	5.4	4.6	45.4	2.4	-0.1
Greece	18.0	14.2	15.3	88.0	-0.3	-5.0
Spain	5.9	5.7	2.7	44.5	0.3	-2.9
France	3.1	3.3	1.6	37.3	0.9	-0.9
Ireland	3.0	4.9	3.0	97.4	2.2	2.2
Italy	6.3	6.9	10.1	103.3	2.6	-1.3
Luxembourg	3.5	2.8	-1.6	4.7	-1.6	26.4
Netherlands	2.8	3.4	4.8	78.8	0.3	4.0
Portugal	11.6	14.6	5.5	63.8	-3.5	-1.2
UK	6.5	8.2	2.2	44.5	1.3	-1.1
EC	5.0	5.8	4.6	68.0	1.4	-0.6

Source: 1991 forecasts of the Commission services

Specifying criteria for convergence



ATTACHED to the draft treaty is a protocol laying down criteria for economic convergence that will guide the European Council's decision on whether EC member states are ready to embark on Emu's third and final stage.

Article 1 says a state will meet the convergence criteria on price stability if it "shall have a price performance that is sustainable and a rate of inflation, observed over a period of one year before the examination, that does not exceed that of the, at most, three best performing Member States in terms of price stability by more than 1 1/2 percentage points. Inflation shall be measured by means of the consumer price index (CPI) on a comparable basis."

Article 2 says the government budgetary criterion shall not be met if there is a Council decision "that an excessive deficit exists for the Member

State concerned". Article 3 covers a country's record in the European Monetary System and says "a Member State shall have respected the normal fluctuation margins provided for by the Exchange Rate Mechanism of the European Monetary System without severe tensions for at least two years before its examination. In particular it shall not have devalued its currency's bilateral central rate against any other Member State's currency on its own proposal for the same period."

Article 4 sets convergence in terms of interest rates by specifying that "in the last year before the examination a Member State shall have a nominal long-term interest rate that does not exceed that of the, at most, three best performing Member States in terms of price stability by more than 2 percentage points. Interest rates shall be measured on the basis of long term government bonds or comparable securities."

Budget deficits to stay within limits



THE draft treaty is accompanied by a protocol setting down rules to prevent governments running excessive budget deficits.

The main elements are as follows: Article 1 establishes that deficits should not exceed: "Three per cent for the ratio of the planned or actual government deficit to gross domestic product" and "60 per cent for the ratio of government debt to gross domestic product".

Article 2 specifies that "Government means General Government, that is Central Government, regional or local government and social security funds, to the exclusion of commercial operations. Deficit means the net balance to be financed, on a cash basis. Investment means gross fixed capital formation."

Article 3 stipulates that "in order to ensure the effectiveness of the excessive-deficit procedure the governments of the Member States shall be responsible under this procedure for the deficits of General Government referred to in Article 2 of this protocol."

"The Member states shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from the Treaty."

"The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission."

Article 4 says: "Revenues from non-interest bearing deposits and fines imposed... [for running an excessive deficit] shall be treated as ordinary revenue of the European Economic Community and shall be inscribed in the general budget of the Communities."

Article 5 adds: "The statistical data to be used for the application of this protocol shall be provided by the Commission."

Full accord evades central bank governors on monetary institute

By Peter Norman, Economics Correspondent



EUROPEAN central bank governors yesterday failed to reach full agreement on draft statutes for the proposed European Monetary Institute and left unresolved certain details of the planned European System of Central Banks.

European monetary officials said a special meeting in Basle uncovered divisions among the 12 central bankers over how far EC governments should influence top level appointments to the EMI, which is intended to co-ordinate monetary policy among the 12 member states in the run-up to economic and monetary union (Emu).

In the case of the European central bank system, which is due to be put in place to

manage the single currency and unified monetary policy envisaged for the third and final stage of Emu, the 12 were unable to agree on how far member states which decide against fully joining the monetary union should participate in the bank's activities.

The central bank governors met in the Basle headquarters of the Bank for International Settlements until early afternoon under the chairmanship of Mr Erik Hoffmeyer, the Danish central bank governor who last month was elected as head of the EC central bank governors' committee.

After they failed to agree, their deputies continued talks but without achieving a breakthrough.

The divisions over the EMI could be difficult to resolve. Mr Hoffmeyer reported disagree-

ment on who would hold the presidency of the EMI, the amount of capital to be paid in by national central banks and on the voting system.

The question of where the EMI would be based was left open.

These differences were thought to reflect an earlier rift that had opened up among the central banks.

Some, led by the German Bundesbank, wanted the EMI to be little more than an extension of the existing bank governors' committee. Others, notably the Bank of France and the Italian central bank, have been inclined to see the EMI as an embryonic European central bank. There have also been suggestions that the EMI president should be drawn from outside the circle of EC central bank governors, raising wor-

ries about government influence over the institute.

The EMI is due to be an interim body that would give way to the European system of central banks (ESCB), with a European central bank (ECB) at its centre, in stage three of Emu. Most of the draft statutes for the ESCB and the ECB were completed in November last year. But the outstanding problems surrounding the rights of EC member states that choose not to join fully in monetary union are of great relevance to Britain.

The central bankers are trying to pin down who will be able to take part in the decision-making meetings of the European central bank and with what rights, even though negotiations to date suggest that such a body will not be set up before 1997 at the earliest.

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EUROPEAN NEWS

EC delivers ultimatum to Serbians

By Andrew Hill in Brussels

THE European Community yesterday gave Serbia a week to accept EC proposals for peace in Yugoslavia or face trade sanctions.

Foreign ministers set a deadline of November 5 - the next full session of the Yugoslav peace conference - for all six republics to agree to EC proposals. They also moved a step closer to recognising the independence of the other Yugoslav republics by threatening to isolate Serbia.

Mr Hans Van den Broek, foreign minister of the Netherlands, which holds the EC presidency, said that if sanctions were imposed, any subsequent political solution to the crisis would be reached "in the perspective of a recognition of those republics [which co-operated with the EC plans]".

He said: "We want to continue [to negotiate] with the six republics, but if parties are not prepared to make their positions clear on November 5, the parties which are non-cooperative will be confronted with restrictive measures by the Community."

Mr Abel Matutes, EC commissioner responsible for Yugoslavia, said such measures would consist of immediate suspension of preferential trade agreements between the EC and the whole federation. Trade would then be reopened

with the republics which agreed to the EC plan.

Next week could therefore mark the crucial turning point in the EC approach to the Yugoslav crisis.

At next Monday's foreign ministers' meeting, the Commission will present formal proposals for restrictive measures which could be imposed on unco-operative republics.

On Tuesday, the Yugoslav republics will have to state clearly whether they can accept EC proposals - in particular the fundamental conditions protecting human rights and minorities, and rejecting unilateral changes of borders. A political decision to impose sanctions could be taken when foreign ministers meet at the end of the week during the Nato summit in Rome.

Mr Van den Broek said the EC would also call on the United Nations security council to impose restrictive measures.

The Commission had doubts about whether trade preferences could be withdrawn without giving six months' notice to Yugoslavia. But

according to Mr Matutes, Commission legal experts have now decided that such agreements can be suspended immediately, on the grounds that trade is being disrupted by the crisis.

Sweden eases foreign ownership restrictions

By Robert Taylor in Stockholm

THE SWEDISH government is to abolish legal restrictions making it difficult for foreigners to invest and acquire industrial companies in Sweden.

The long-awaited change, to take effect from next January 1, is designed to encourage investment into Sweden which has remained low over the past decade at a time when Swedish outward investment has risen sixfold. It reflects the new centre-right government's determination to pursue more free market policies and adjust industrial structure to international realities before the arrival of the 19-nation European Economic Area in 1993 with its commitment to the free movement of capital.

At present special permission is required for a foreign company to hold more than 40 per cent of the equity and 20 per cent of the voting rights in a Swedish-owned concern.

In future, no permission will be necessary. However, any Swedish company will still be able to have its own articles of association a restriction on ownership preventing foreigner acquiring more than 40

per cent of the equity and 20 per cent of the voting rights.

Mr Per Westerberg, the industry minister, said that Sweden was leading the way in removing restrictions on foreign ownership among the Nordic countries but this reflected the new government's wish to see an increase of inward investment into Sweden. There will be only one exception in future.

Restrictions were lifted on foreign ownership of banks and other credit institutions in July 1990 but they remain in force on the foreign acquisition of agricultural land. Nor will it be possible for foreigners to enjoy unrestricted freedom to acquire properties.

The proposed change in the laws concerning industrial companies was welcomed last night by Swedish industry. Sweden's own industrial revolution was financed by substantial inward investment from Germany, Britain and France. In recent years Swedish companies have launched aggressive acquisition and merger offensives inside the European Community.



Hans-Jochen Vogel: action clears way for younger person ahead of 1994 elections

Vogel quits as SPD's parliamentary leader

By Quentin Peel in Bonn

THE former leader of Germany's opposition Social Democrats (SPD), Mr Hans-Jochen Vogel, yesterday announced his surprise decision to quit as the party's parliamentary leader, just nine months after handing over the overall party chairmanship to Mr Björn Engholm.

His action clears the way for the SPD to fill a key post with someone younger well before the next parliamentary elections due in 1994.

It also means that Mr Engholm can have a say on who will take over in what is effectively the alternative party leadership.

However, the move has undoubtedly taken many rank-and-file members of the SPD by surprise, coming at a moment when there is no clear heir-apparent. The lack of a clear national parliamentary leader as candidate for chancellor is

seen as a significant electoral weakness of the party, which was defeated decisively last December by Chancellor Helmut Kohl's Christian Democratic Union (CDU) in the first post-unification poll.

The 65-year-old Mr Vogel became party chairman in 1987 in place of Mr Willy Brandt at a time when the party's fortunes were at an all-time low. Since then, he has failed to make serious inroads on Mr Kohl's position, although the chancellor was only returned to power thanks to his brilliant exploitation of German reunification.

Mr Vogel made his announcement at a meeting of the parliamentary group leadership, by all accounts looking both relieved and relaxed, and 4kg lighter, after a two-week slimming cure in Bavaria. He said his retirement was making way for the younger generation in the Bundestag, as well as in the party leadership.

At least two leading women parliamentarians are strong contenders for the succession.

The most obvious is Ms Herta and Paul Amirian, a spokeswoman on justice and internal affairs, and who has frequently stood in for Mr Vogel in the recent past. She comes from Baden-Württemberg in the south-west, and is seen as his personal favourite.

The second is Ms Ingrid Matthies-Maier, deputy leader of the group and finance spokeswoman. She has support in the key North Rhine-Westphalian faction, but has the disadvantage of having originally belonged to the Free Democrats.

The succession will be decided in December by a five-person committee in the parliamentary group, including Mr Vogel.

WEU looks for its place in Europe's line of defence

By Quentin Peel in Bonn and Ronald van de Krol in The Hague

FOREIGN AND defence ministers of the Western European Union meet in Bonn today for a crucial brain-storming meeting on the future of the organisation as a reinforced European pillar of Nato.

At the heart of the debate are the alternative Franco-German and Anglo-Italian views on how the organisation should develop: either as a defence arm of European political union, under the Community umbrella, or as a bridge between the European Community and Nato.

At the same time, the ministers

are being asked to consider their future relations with the eastern European former members of the Warsaw Pact, and to weigh up the possible intervention of the WEU in support of the EC observers in Yugoslavia.

Clear conclusions are not expected from the extraordinary meeting, called in advance of the normal November 18 ministerial gathering, in order to prepare for next week's Nato summit in Rome. However, the debate is seen as a vital component in the entire rethink of western European defence strategy both within

Nato, and in relation to the negotiations within the EC on political union.

In spite of the apparent differences between the Franco-German defence proposals (also backed by Spain) to bring WEU virtually under the EC umbrella, and the British, Italian and indeed Dutch position that nothing should be done to undermine Nato, diplomats on both sides suggest that compromise is possible.

Thus, there is widespread agreement on the need to move WEU headquarters to Brussels, and use it as part of a "European defence identity". The

only question is to what extent it is simply a part of Nato.

German officials present the Franco-German plan, which was almost entirely drafted in Bonn, as a means of binding France more closely into Nato military structures. They say that in all questions of Nato defence, the proposed European corps, including French troops, would come under Nato command.

However, in London and the Hague, it is seen as a way of setting up an alternative force in which German Nato forces would be "double-hatted",

expected to be acting simultaneously within and outside the alliance. They point to the inherent conflict in having German troops under Nato command, and French troops outside Nato command, serving alongside each other.

The disagreements over an actual military force drawn from the nine WEU states make any prospect of deal on that question unlikely before the EC summit at Maastricht in December. Efforts at a compromise will therefore concentrate on the political structures.

The question of special rela-

tions between the WEU and eastern European states has been put on the agenda by Mr Hans-Dietrich Genscher, German foreign minister and current chairman of the WEU ministerial council. He is very keen to have a joint position in time for the Nato summit in Rome.

As for intervention in Yugoslavia, the ministers will hear a report from their experts asked to recommend how the WEU might support the EC. However, they are not expected to take any decisions until the situation in the Yugoslav peace negotiations is clearer.

New finance minister for Portugal

By Peter Wise in Lisbon

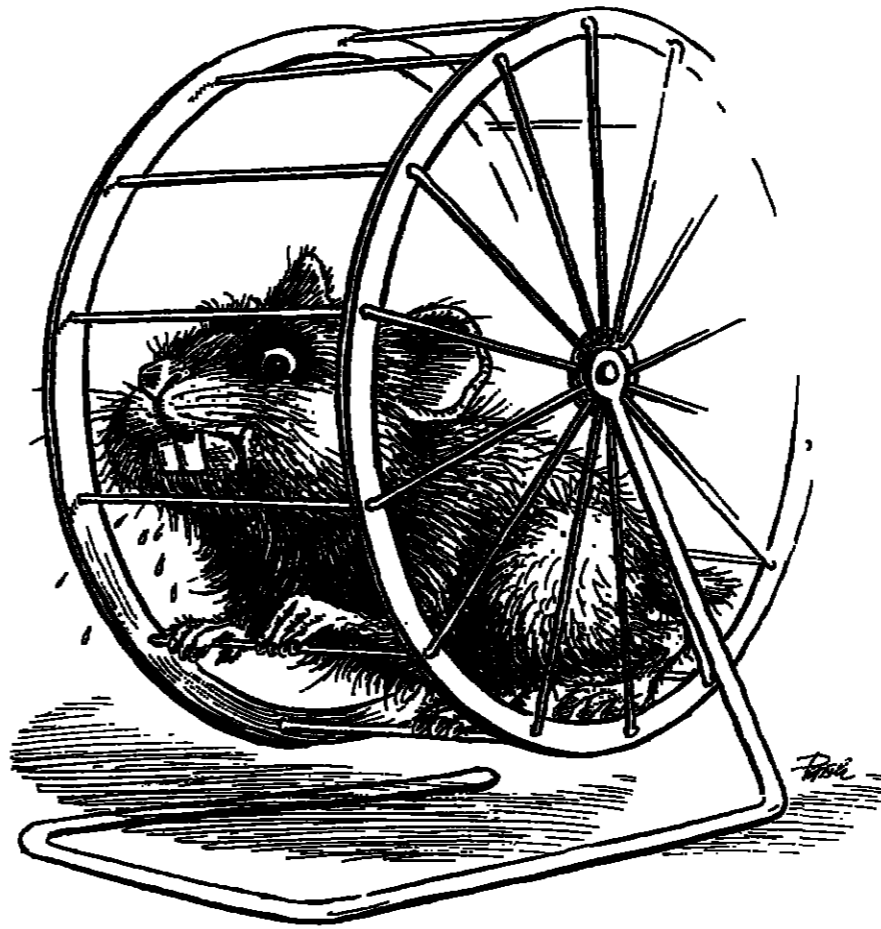
PORTUGUESE Prime Minister Anibal Cavaco Silva has appointed Mr Jorge Braga de Macedo, an academic economist currently serving with the European Commission in Brussels, as finance minister in a new government.

The new cabinet, named following the October 6 re-election of the centre-right Social Democratic Party, will be sworn in on Thursday.

Mr Braga de Macedo, 44, one of only three new ministers, is considered an orthodox supporter of the prime minister's free-market, monetarist approach to economic policy. He replaces Mr Miguel Beza, who insisted on a commitment to tight restrictions on budget spending.

Mr Braga de Macedo graduated in economics and philosophy at Yale University.

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EUROPEAN NEWS

Republics give pledge on Soviet debt

By Leyla Boulton in Moscow

TWELVE Soviet republics, under strong pressure from Group of Seven representatives, yesterday agreed a commitment to share responsibility for the Soviet Union's existing foreign debt.

The negotiations in Moscow on a communiqué saying that republics "jointly and severally" take responsibility for the Soviet Union's foreign obligations, estimated at about \$60bn (\$35bn), were held against a backdrop of grim warnings that Vnesheconbank, responsible for servicing the foreign debt, was within days of ceasing repayments unless it received outside assistance.

The promise of western financial assistance to ward off a liquidity crisis was, however, being seen as conditional on the republics' agreement to honour the Soviet Union's existing commitment and acknowledge responsibility for debts incurred by the former Soviet Union. The G7 officials made clear to the prime, finance and economics min-

isters from the republics that they would not be permitted to divide the Soviet debt and service it independently.

Although western officials are sceptical about the republics' ability to put together an effective mechanism for collecting hard currency for debt repayment, yesterday's communiqué was seen as an essential signal to reassure foreign financial circles and enable the granting of fresh credits by both governments and commercial banks.

Yesterday's intense negotiations were the first direct interventions by the rich industrial nations into the internal wranglings of the Soviet republics - designed to save them from ruining their own creditworthiness.

The communiqué also stipulates that Vnesheconbank, even if in a renewed form, should be sole manager of Soviet debt. But at the request of the republics it also lays down that they should oversee the bank's work.

Baltic states to tackle UK about their gold

By Sara Webb in London

THE newly-independent Baltic states of Estonia, Latvia and Lithuania are planning to demand compensation for the Baltic gold deposited with the Bank of England before the 1940 Soviet occupation and which the British government subsequently sold for \$5.8m.

Representatives of the three Baltic states are coming to London early next month to hold separate bilateral talks with the Foreign Office, Treasury, and possibly the Bank of England. The gold issue is sensitive as the Estonians, Latvians and Lithuanians are anxious the gold they deposited with the Bank for safekeeping was sold as part of a 1963 UK-Soviet agreement.

Some \$60,220 oz was deposited with the Bank by the Baltic central banks before 1940.

Baltic representatives claim the current market value is about \$115m.

Following the 1968 UK-Soviet agreement, the British sold the Baltic gold to repay some of the Baltic states' debts.

● The Soviet republic of Kazakhstan, in central Asia, said yesterday it intended to build up its gold reserves under its policies of economic independence, writes David Marsh, European Editor.

Although Kazakhstan mines much less gold than neighbouring Uzbekistan it is thought to account for roughly 6 per cent of Soviet production.

Mr Nursultan Nazarbayev, the republic's president, made the announcement on the first day of a five-day visit to Britain, seeking to expand economic and political ties.

Mazowiecki narrowly ahead in Polish vote

By Anthony Robinson and Christopher Bobinski in Warsaw

POLAND'S Democratic Union party, led by former prime minister Tadeusz Mazowiecki, was yesterday emerging with the biggest share of the vote in the country's first free parliamentary elections since the Thirties.

With 75 per cent of the country's polling stations reporting results yesterday evening, it had gained 12 per cent. The former Communist Democratic Left Alliance was running second with 11.69 per cent, while the Polish Peasants' Party (PSL) once allied with the Communists, was running third with 9.3 per cent.

President Lech Walesa must today start the task of forming a new government after an

election which has created a fractured, multi-party parliament of more than 10 parties. He may try to build a non-party government as an interim measure and call new elections next year in the hope of securing a clearer result.

Parties backed by the Roman Catholic Church, such as Catholic Electoral Action and the Centre Alliance, had won 9 per cent and 6.5 per cent respectively, while the Confederation for Independent Poland, which attracts anti-Communists disillusioned with Solidarity polled 7.5 per cent.

The Liberal Democratic Congress party of Mr Jan Krzysztof Bielecki, the outgoing premier, had gained 7.1 per cent, while

the Solidarity trade union and the Solidarity farmers' movement won a modest 5.9 and 4.9 per cent respectively.

Final results of the election to the 100 seats in the Senate and the 460 seats in the Sejm, the more important lower chamber, are expected today.

Mr Mazowiecki has said he wants the next government built on a "historic" coalition of all the parties with their roots in the former anti-Communist Solidarity movement.

However, such an attempt may prove impossible given the wide differences between right-wing Catholic groups and free market liberal democrats or the social democrats in the Solidarity labour faction.



Election commission officials open a ballot box in a Warsaw voting station. A large proportion of the electorate stayed at home.

Patience runs out among disillusioned electorate

Anthony Robinson and Christopher Bobinski in Warsaw assess the result of Sunday's general election

NO COMMUNIST government could have got away with a fraction of the sacrifices demanded of the Polish people by the two post-Communist governments which have run Poland for the past 30 months.

A nation which for decades regularly took to the streets in protest at attempts by Communist governments to raise the price of meat, appeared to accept with an uncharacteristic fatalism high inflation, rising unemployment and a fast widening gap between the rising living standards of the new rich and the new poor.

But, on Sunday, 60 per cent of the electorate signalled that it had had enough of squabbling politicians and falling living standards by boycotting the freest parliamentary elections in 50 years.

As a result Poland finds itself divided politically between a multiplicity of small parties with little prospect of forming a stable parliamentary coalition able to sustain a government with an agreed programme.

President Lech Walesa now faces a hard time finding a prime minister able to put together a government, while the political parties, especially those formed out of the once united Solidarity alliance, will have to look again at the chances of papering over deep personal and ideological feuds.

Even the largest party, the Democratic Union consisting of former Solidarity activists led by Mr Tadeusz Mazowiecki, only won around 12 per

cent of the votes counted by yesterday afternoon. This was a mere 100,000 votes more than the reform Communists who become the second largest party in the new parliament. Their success, ironically, is due largely to President Walesa who goaded many former Communists and their families into action by threatening to discriminate against them in a televised eve of election broadcast.

While former Communists voted en masse to protect their backs, disgruntled protest voters either stayed at home or opted for parties such as the right-wing Confederation for an Independent Poland (KPN). The confederation, led by Mr Leszek Moczulski, became one of the top five parties by promising a witch hunt of former Communists and defence of the national interest against foreigners of all stripes. As such, it gained the support of those who both hate Communists and think the two post-Communist governments sold out Poland to foreign capital.

The Roman Catholic Church managed to direct some of its flock in the direction of Catholic parties such as Catholic Action and the Centre Alliance headed by the Kaczynski twins, Lech and Jaroslaw, two of Mr Walesa's former close advisers. By the fact that the vast majority of Poles defied all advice and stayed at home shows how much the influence of the church, of President Walesa and politicians in general, has waned in recent months.

The nub of the problem lies in the

Poland finds itself divided politically into a multiplicity of small parties with little prospect of forming a stable parliamentary coalition able to sustain a government with an agreed programme

unexpected difficulty of transforming political democracy into economic prosperity. Having inherited hyperinflation from Mr Mieczyslaw Rakowski's outgoing Communist regime, Mr Leszek Balcerowicz, finance minister in the first Solidarity government, had to introduce a harsh macro-stabilisation policy.

This quickly restored value to the zloty by cutting subsidies and liberalising prices and imports. These measures, which reduced inflation and stabilised the newly convertible zloty, were accompanied by a longer range policy of privatisation and economic and financial restructuring.

Thanks to these policies Poland regained the confidence of the international financial community - but at a high cost in the living standards of farmers and most employees in the

still dominant state sector of industry. It is in the grim industrial towns like Lodz or Katowice where the sacrifices demanded seem least likely to bear eventual fruit that the disillusion recorded in these elections is deepest.

Partly because no-one was able to come up with a credible alternative plan, Mr Balcerowicz was retained as finance minister by the second democratic government headed by Mr Jan Krzysztof Bielecki.

The latter, a free marketeer whose Liberal Democratic Congress did moderately well at the polls, remains a possible candidate for the new premiership. But the future of Mr Balcerowicz, who portrays himself as a technocrat above party considerations, is more tenuous after the election results. Opinion polls show that Mr Balcerowicz is widely respected for his competence and integrity even though his policies are unpopular.

Mr Walesa, not an economist, will be under intense pressure to relax monetary and financial policy and to ease the plight of farmers and the industrial cities by reintroducing tariff and other protection against cheap European Community and other imports. But he will find it difficult to persuade Mr Balcerowicz.

The last time Mr Balcerowicz partially bowed to inflationist arguments in July 1990 the result was increased inflation and a surge in imports which obliged him to tighten the screws again a few months later. If Mr Walesa insists on easier policies, he will probably have to find both a new

prime minister and a new finance minister.

Even so, any new government will soon find itself up against the harsh realities of life during transition to a market economy. Before the elections, the IMF suspended disbursements on its three-year \$1.7bn extended loan facility because of the government's failure to comply with agreed financial targets.

Slow progress on privatisation and a steep fall in the profitability of state-owned industry, for example, pushed the budget into an unplanned deficit of \$1.8bn this summer.

Compliance with the terms of IMF agreements, however, is also crucial to the implementation of this year's Paris Club agreement on a stage-by-stage write-off of 50 per cent of Poland's \$30bn official debt. The elections also halted progress towards similar negotiations with the commercial banks for a reduction in Poland's \$11bn private sector debt.

Effective debt reduction and IMF/World Bank support for Poland in turn is widely seen as one of the keys to attracting foreign equity investment into Poland's privatised state companies and in new green-field projects able to create exports and jobs.

Until now, Poland's political stability, its dogged acceptance of tough financial policies and the long term prospects of a prosperous market of nearly 40m people have attracted investors' interest. Keeping it that way looks like becoming a lot harder in coming months.

AMERICAN NEWS

Authorities intervene to brake currency's climb

Canadian banks lower rates as dollar surges

By Bernard Simon in Toronto

CANADIAN banks have begun lowering their lending rates for the third time this month, in response to easing monetary policy and a continuing surge in the Canadian dollar.

The Bank of Montreal is bringing down its prime lending rate today from 8.75 per cent to 8.5 per cent, and other banks are expected to follow soon.

The Bank of Canada intervened again in foreign exchange markets yesterday to brake the rise of the Canadian dollar. By the close the currency was trading at 89.9 US cents, its highest level in more than 15 years.

The dollar has been spurred

by huge inflows of foreign capital, encouraged by the Canadian premium over US interest rates and expectations of falling inflation.

According to Statistics Canada, foreigners invested a record C\$4.7bn (\$2.43bn) in Canadian securities in August, beating the previous record by more than C\$1bn. The Bank of Canada has loosened monetary policy in recent weeks amid optimism that it will meet its target of bringing the annualised rise in the consumer price index below 3 per cent by the end of 1992.

The bank, which has made the fight against inflation its highest priority for the past

four years, is aiming for an inflation rate of 2 per cent by the end of 1988. The prime rate stood at 14.75 per cent in mid-1990, while the spread between US and Canadian short-term interest rates has narrowed to less than 3 percentage points, half the gap in early 1990.

Most economists have recently lowered both their inflation and interest rate forecasts.

Mr Mark Chandler, international economist at Royal Bank of Canada, said yesterday he expected the prime rate to drop to 7.75 per cent by the end of the year, and by another 50-75 basis points in 1992.

Mulroney formally quits race for UN

By Michael Littlejohns in New York and Bernard Simon

MR Brian Mulroney, the Canadian prime minister, yesterday formally withdrew his name from consideration for the post of UN secretary-general.

Mr Yves Fortier, Canada's UN ambassador, informed the president of the Security Council, Mr Chinnaya Gharekhan of India, of the premier's move. He told reporters afterwards it was an irrevocable decision. Responding to suggestions that Mr Mulroney, who had support from the US and Britain, might still be drafted to succeed Mr Javier Pérez de Cuellar, whose term expires at the end of the year, Mr Fortier said the prime minister would be unwilling to serve.

In a straw poll of the council last Friday, Mr Mulroney received five votes, fewer than Mr Boutros Ghali, deputy prime minister of Egypt, and Mr Bernard Chidzero, Zimbabwe's finance minister, each of whom polled nine votes.

Mr Fortier said that, since the prime minister's name was first floated a week ago, pressure on him to run had "continued unabated". But he had concluded his responsibilities lay at home.

Despite his deep unpopularity in Canada, Mr Mulroney had come under growing pressure from supporters to withdraw as a candidate for the UN job and focus his energies on the country's constitutional problems.

Some senior members of his Progressive Conservative party, especially from Quebec, have felt that no other figure in the federal government has sufficient credibility to fight the separatist forces in the francophone province.

Mr Mulroney is a bilingual Quebecois and his popularity there has remained higher than in the rest of the country. In addition, his candidacy for the secretary-general's post and subsequent withdrawal are likely to be more helpful in regaining respect in English-speaking Canada than the prospect of being knocked out of contention by another candidate.

By withdrawing Mr Mulroney has also sent a clear message that he still believes the Tories, despite their recent problems, can win the next general election, which is likely to be held in early 1993.

Argentine voters back 'Menemism'

By John Barham in Buenos Aires

ARGENTINA'S ruling Peronist party should hold three of the six provincial governorships at stake in the third leg of the country's four-stage local and congressional mid-term elections, according to provisional returns. Right-wing parties are likely to capture the other gubernatorial seats contested in Sunday's poll.

However, even in the northern provinces of Corrientes, Chaco and Salta, where local conservative parties defeated the Peronists, the electorate still supports the free-market economic reforms of President Carlos Menem's centre-right government. Mr Menem said "even where the Peronists lost, Menemism has triumphed".

The Peronists now control 14 of Argentina's 23 provinces, with the Radicals, the main opposition party, holding three and independent parties carrying four provinces. Mr Menem said the Peronist alliance with centre-right parties had further strengthened their majority in Congress.

The elections will end in December with gubernatorial races in two provinces.



Colombian president César Gaviria casts his vote on Sunday in the first elections under a new constitution

Colombians end political monopoly

By Sarita Kendall in Bogotá

THE former guerrilla organisation M-19 and an array of smaller groups have eroded the two-party monopoly of Colombian politics, according to partial results of Sunday's congressional elections. However, the governing Liberals look set to retain a majority in the Senate and House of Representatives.

Conservative groups captured second place, followed by M-19. Both the Conservatives and Liberals ran a multitude of candidates and coalitions against M-19's single slate.

The unusually high abstention rate - nearly 70 per cent - was expected, partly because this was the country's fourth election in 20 months

and partly because of the lack of concrete proposals and programmes by candidates.

Voter confusion over the plethora of candidates also contributed to a high percentage of spoiled ballots.

While the traditional parties will probably retain about 80 per cent of congressional seats, many of the old figures associated with electoral malpractice and parliamentary corruption have not been returned.

M-19's tally of between 10 to 12 per cent of the vote, although respectable, does not give the group as high a percentage of seats as it held in the Constitutional Assembly, the elected body which revised the constitution. However, its

vote consolidates the party as an important third force.

The result is satisfactory for President César Gaviria, who pushed through the constitutional reform process which abolished Congress and led to the new elections. The president not only continues with a Liberal parliamentary majority but can show his policies for renewal and broader democratic participation are producing results.

Cabinet changes are expected soon and the government will present a mass of legislation to Congress, much of it designed to clarify and implement the new constitution.

However, talks in Caracas with guerrillas have made little progress; there were two ambushes as the polls closed on Sunday and neither the ELN nor the FARC guerrilla groups appear committed to negotiating a genuine ceasefire and disarmament.

M-19's successful conversion to democratic politics and the example of Ms Vera Grabe, a senator-elect who fought in M-19's takeover of the Palace of Justice in 1985 in which more than 100 people died, could provide an incentive.

For the first time indigenous groups will be represented in parliament, with three senators. Two of these seats are allotted under the new constitution, but the Indian vote was large enough to gain a third.

Greenspan admits US recovery sluggish

By Michael Prowse in Washington

THE US economy has turned "demonstrably sluggish," Mr Alan Greenspan, the Federal Reserve chairman, said yesterday.

The economy was still moving forward but faced "50 miles an hour headwinds," he told a business conference in Rhode Island. The negative tone of his lunchtime remarks appeared to revive Wall Street hopes that the Fed might soon nudge interest rates lower and reversed an earlier decline in bond prices.

Mr Greenspan was speaking on the eve of the release of economic figures, which are expected to show that gross national product grew at an annual rate of 2.5 to 3 per cent in the third quarter of this year.

This would be the first quarter of growth since the recession began last autumn.

Analysts, however, expect a slowdown in inventory liquidation by companies to account for much of the GNP gain. Many are forecasting a renewed slowdown in growth in the fourth quarter.

President George Bush said yesterday he would fight "tooth and nail" for faster economic growth. But he appeared to rule out tax cuts that would raise public borrowing.

He vowed to fight legislation which would break last year's bipartisan budget agreement with Congress or "further burden the young people of this country".

Mr Greenspan said an "utterly unprecedented" credit crunch was preventing the economy from bouncing back from recession with its normal vigour. Banks were avoiding making loans because of greater-than-normal fears of losses.

He pointed to signs that the rate of increase in banks' non-performing loans was slowing down. But he did not see imminent signs that the credit crunch had dissolved.

Analysts are anxiously awaiting employment figures due out on Friday, which will provide the first comprehensive guide to economic trends in October.

IMF-World Bank's culture of secrecy attacked

THE culture of secrecy at the International Monetary Fund and World Bank was attacked yesterday by Prof Stanley Fischer, a leading international economist at the Massachusetts Institute of Technology and a former chief economist at the World Bank, writes Michael Prowse.

Publication of the fund's annual economic reports on member countries "would improve the quality of policy discussion within countries, and ultimately the quality of economic policy," Prof Fischer said in an address to the Bretton Woods Committee, an independent Wash-

ington-based think-tank. Governments with strong economies that "value informed public discussion" ought to agree on publication of fund reports. "If a few countries set an example, others will eventually follow."

Prof Fischer acknowledged that publication might impair the frankness of reports but said the professionalism of the fund's staff would ensure the "basic message gets across". The fund and bank were "immensely powerful" institutions which operated in developing countries "with few checks or balances". He called for a "careful appraisal" of the IMF's record in

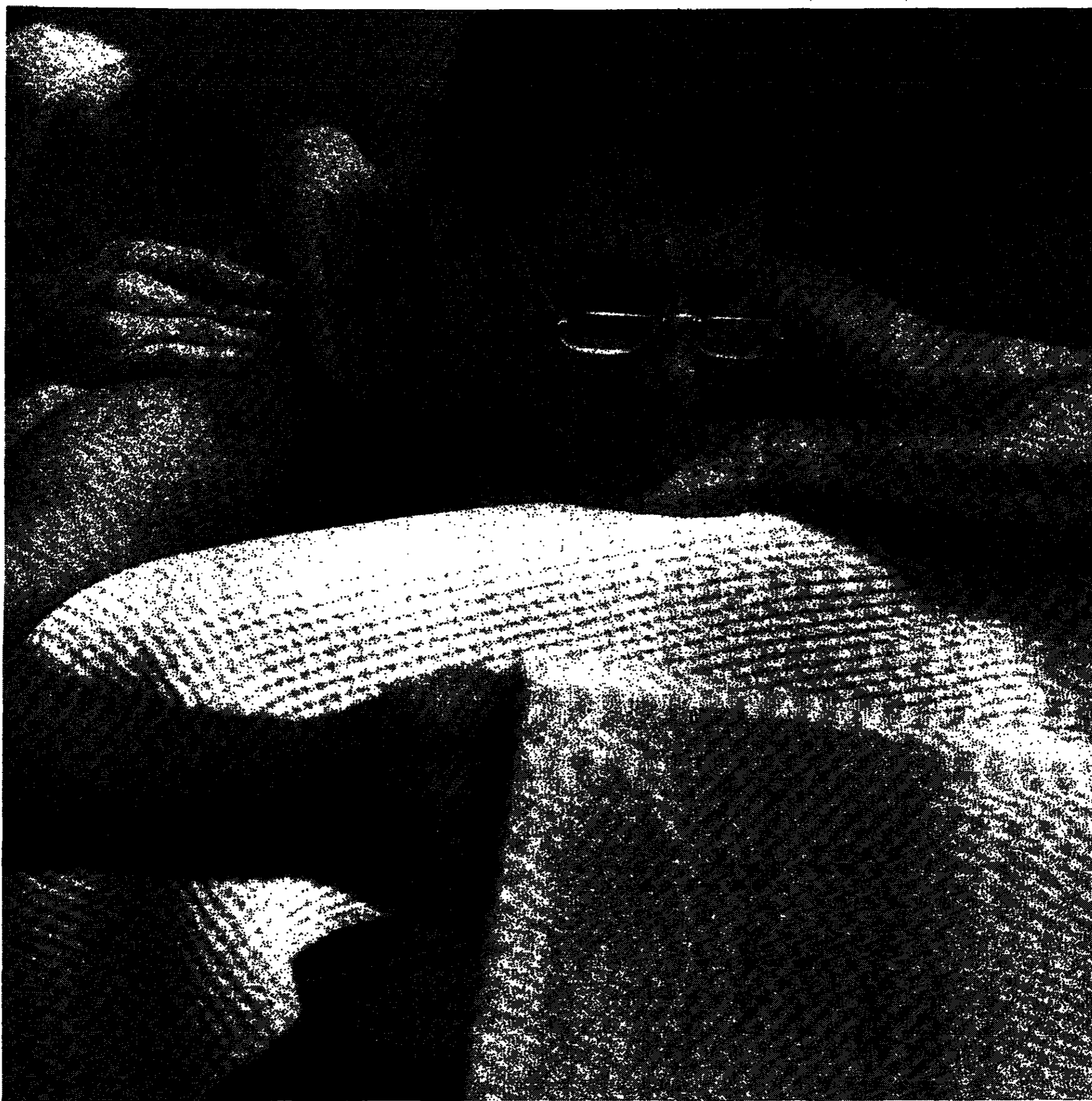
developing countries, noting there had been few serious evaluations recently.

The fund, unlike the bank, has not published assessments of its record in policy-based lending in the third world.

Given the overlap in fund and bank activities, Prof Fischer pointed to advantages in merging the institutions, "not least the saving that would come from having only one board of directors".

However, a merger would be undesirable "as long as the agencies continue to operate with as much secrecy as they do". As separate agencies, each provided a necessary check on the other.

How can the metals industry coordinate production and finance without getting bent out of shape?



Sharply fluctuating commodity prices can quickly turn into a problem that portfolio diversification alone won't solve. One thing is certain: standard solutions and all-out efforts aren't enough. Systematic, well-planned investment programs are necessary. And this is where the UBS Institutional Asset Management staff comes in, with its specialized know-how, international experience and Union Bank's excellent global connections.

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INTERNATIONAL NEWS

Bonn says its spies tried to send tanks to Mossad

GERMAN intelligence tried to send a dozen Soviet-built tanks to Israel's Mossad secret service without the knowledge of the cabinet, possibly violating arms export laws, a government spokesman acknowledged yesterday. Reuters reports from Hamburg.

Police found the tanks and two containers full of unspecified equipment on an Israeli freighter in Hamburg at the weekend. The items had been described on export documents as agricultural equipment.

Hamburg prosecutors said they were investigating the case as a possible violation of Germany's strict weapons export laws.

Mr Norbert Schaefer, deputy government spokesman, confirmed that the equipment was destined for Israel and had come from the German intelligence service, the Bundesnachrichtendienst (BND).

"It is military material of Soviet origin," he told a news conference. "The material came from supplies of the former East German National People's Army and was put at the disposal of the BND by the Defence Ministry."

"These individual pieces were to be transported to Israel by the BND. Israel wanted to test this material technically."

Bonn acquired all the equipment belonging to the two German army units in October 1990.

Mr Schaefer, who declined to specify what type of tank was involved, said: "It is entirely normal for friendly intelligence services to exchange weapons for the purpose of testing them."

He added: "One does not like to shout such things from the rooftops, which is also normal in this area of activity. That is why it was declared as agricultural material."

Mr Schaefer said the size of the consignment made it unlikely that Israel intended to use it for military purposes. But a spokesman for the Economics Ministry, which is responsible for monitoring arms exports, said it was too early to draw such conclusions.

Mr Schaefer said the head of the BND had ordered an investigation into whether the rules on military exports had been complied with in the case of the tanks.



The wife of Egyptian Embassy Administrative Attaché Abdullah El-Korabi gestures amid colleagues after her husband lost an arm when a bomb exploded in his car in Ankara yesterday. Another attack left a US serviceman dead. The attacks were claimed by an extremist Islamic group to be in protest at tomorrow's Middle East talks in Madrid

Western governments to end evacuations as Mobutu maintains hard line

Last-ditch talks to avoid Zaire chaos

By Julian Ozanne in Kinshasa

TALKS were under way in Kinshasa last night to find a compromise between President Mobutu Sese Seko and Mr Etienne Tshisekedi, the powerful opposition figure Mr Mobutu chose and then dismissed as prime minister of a crisis government.

However, as the last remaining westerners continued to leave the country, fears were growing among Zaireans that the economy, already devastated by hyperinflation and the destruction of businesses and infrastructure, will not be able to stand the shock of the sudden loss of the vast managerial and technical skills upon which Zaire has depended.

The refusal of Mr Mobutu to grant the democratic aspirations of the Zairean people, one newspaper said, had forced the West to abandon the country.

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Mobutu: seeking a way out

flights from the interior would end by tomorrow. After there would be three Belgian boats available for "a few more days" to help evacuate people from Kinshasa across the river to Brazzaville, capital of Congo, Britain, Canada and the United States stepped up pressure on their estimated 300-400 nationals to leave the country immediately.

"It is likely that no further major evacuation will occur

after the French and Belgian military complete efforts now underway," a Foreign Office statement said.

"Zaire has not collapsed because it has had a vast private sector and thousands of foreign entrepreneurs and technicians," said one western diplomat. "In this country it has always been the patron (owner/manager) who solves everything. Things will deteriorate very quickly in the coming days." Banks and most big businesses have remained open but tens of thousands of Zaireans have already been laid off and hundreds of factories and shops looted and destroyed.

Mr Richard Hamer of Chevron, who said he would leave Kinshasa tomorrow, confirmed yesterday that the onshore oil drilling operation of Shell and Petrofina, which was producing 9,000 b/d, at Mwanda had been "completely destroyed" in an orgy of looting led by mutinous soldiers last week.

He also said there were a slim danger of an oil and gas explosion because the wells had not been sealed securely because of insecurity. However, he said that Chevron had \$11m-12m dollars of stock of crude oil and refined products at the Mwanda refinery.

enough to supply the capital for 1-2 months if the security situation does not deteriorate further.

An official of the state Diamond company, Miba, said yesterday that the most recent shipment of 710,000 carats of diamonds had to be flown from Mbuji-Mayi directly to South Africa because the security situation was "too dangerous" for the stones to be transported through Kinshasa.

He said total annual MIBA production, all of which is sold to the Central Selling Organisation, is expected to be down 1.5m-2m carats on last year's production of 9.55m carats as a result of the disturbances this year and due to shortages of spare parts and the deteriorating state of the machinery.

Electricity and water services are being maintained in the capital, although the water company is believed to be running short of purifying agents, raising fears about a deterioration of health and sanitary standards.

The government has put further pressure on the economic situation by ordering the central bank to print billions of zaires in new 20,000 zaire denomination banknotes to pay the vastly increased salaries of the civil service and military.

Lisbon MPs angry at East Timor deadlock

By Clare Bolderson in Jakarta

EFFORTS to end the 16-year-old dispute between Indonesia and Portugal over the status of the former Portuguese colony of East Timor have collapsed with the indefinite postponement of a visit to East Timor by members of the Portuguese parliament.

Lisbon said on Saturday that the visit, due to have taken place from November 4, would not go ahead until Indonesia agreed to drop its veto of a foreign journalist selected by Portugal to cover the event.

Mr Ali Alatas, the Indonesian foreign minister, said in an angry response yesterday that Jakarta had no intention of changing its position and

allowing Jill Joffe, an Australian journalist whom he accused of having "a closed mind" in her reporting of events in East Timor, to accompany the delegation.

Mr Alatas said it had been agreed some time ago that either side could object to the presence of the foreign journalists selected by the other.

The territory was abandoned by the Portuguese in 1975 and after a short period of civil war was invaded and annexed by Indonesia. The UN does not recognise it as being a part of Indonesia.

Mr Alatas said he had no idea where attempts to settle the issue would go next.

Ex-Indian PM in temple row

POLICE warned yesterday that they would arrest a former prime minister, Mr Vishwanath Pratap Singh, if he carries out a threat to lead a public protest against Hindu militants in the north Indian town of Ayodhya. Reuters reports from Delhi.

The town is the scene of a bitter dispute between Muslims and Hindus over ownership of a shrine which has claimed at least 2,000 lives in rioting over the past two years.

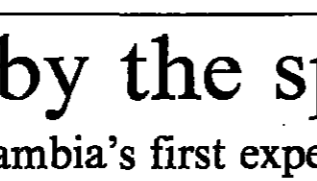
Mr Singh, himself a Hindu, plans to lead a sit-in demonstration against Hindu militants today. He said he was acting in defence of India's constitutional ideal of secularism. But a senior police officer in Ayodhya said: "If V P Singh is not arrested by the time he reaches here, we will take him

into custody. We will not allow another confrontation to build."

The dispute over the shrine played a part in the fall of Mr Singh's government, which lost a vote of confidence in 1990.

He had ordered a crackdown against Hindu militants besieging the shrine, a centuries-old mosque which they say stands on the site of the birthplace of the god Rama.

Mr Singh told a news conference in Lucknow, 200km from Ayodhya, that he was determined to lead the sit-in despite the police warning.



Kaunda: faces strongest challenge of his political career

At the same time the local police chief, Mr Mohan Sarawat, said that 5,000 supporters of the Vishwa Hindu Parishad (VHP) had come to Ayodhya for a possible assault on the mosque. VHP sources said that they planned ceremonies to commemorate the anniversary of Mr Singh's crackdown in which police opened fire, killing at least 16 militants trying to storm the mosque.

Officials said 1,700 paramilitary police had been deployed in the district around Ayodhya to prevent trouble.

"The town is tense," said Jai Shankar Pandey, a resident who supports Mr Singh. "Some Muslim families have left fearing an outbreak of violence."

Mr Singh's government had denied Indian claims that its forces violated a recent accord to prevent clashes between the two armies in Kashmir by launching an assault across their ceasefire line. Reuters reports from Islamabad.

Kaunda rattled by the spectre of election defeat

Julian Ozanne on the run-up to Zambia's first experiment with political pluralism since independence

EVERY night state-run television in Zambia runs a political broadcast by the ruling United National Independence Party (Unip) and President Kenneth Kaunda - who face possible defeat on Thursday in the country's first multi-party elections since 1963.

For three minutes the screens are filled with the harrowing images of Africa's violent history - napalm victims of Ethiopia's civil war, famine-stricken mothers with emaciated children and refugees in squalid camps. The commentary warns Zambians not to let the country go down this road of chaos.

Eighteen million Africans are displaced from their homes, the advertisement says. Five million are refugees. Not a single one of them is a Zambian. "Vote wisely. Vote Unip. Vote KK."

After 27 years in power Mr Kaunda, or KK as he is known to his 3m people, is facing the strongest challenge of his career. The opposition Movement for Multiparty Democracy (MMD), which forced a reluctant Mr Kaunda to concede political pluralism last year after anti-government street riots, has swept the country and drawn on a reservoir of economic disaffection.

In the absence of opinion polls, western diplomats are predicting that the MMD and its presidential candidate, Mr Frederick Chiluba, a 48-year-old trade unionist and son of a copper miner, are heading for victory if Mr Kaunda allows free and fair presidential and parliamentary elections.

It is a sign of the desperation of the only president Zambia has known since independence that Mr Kaunda, still only 67, has been forced to raise the bogey of chaos against the opposition as his main campaign plank.

Whatever the result of this week's elections, in which Zambia becomes the first English-speaking African nation to succumb to the democratic sentiments which have erupted across the continent in the past 18 months, it will have consequences beyond Zambia's borders.

The polls will formally bury one of the most significant experiments with the one-party state and the disastrous African socialist model of economic development. More than that, however, Zambia's move to democracy is certain to have knock-on effects in other former British colonies, such as Kenya and Tanzania, where pro-democracy activists are battling against single-party



Kaunda: faces strongest challenge of his political career

rule. "Twenty-seven years ago we were a nation divided according to our tribes and racial groups," said Mr Kaunda in a recent interview at State House, Lusaka.

"Yet today we are truly one Zambia, one nation. That is a proud record on this turbulent continent... only when there is peace can there be development."

Yet for almost three decades that development has been the hottest election issue. Part of the blame can be laid on factors outside Mr Kaunda's control: the destabilising impact of civil wars in neighbouring Mozambique, Angola, Zaire and Rhodesia (now Zimbabwe) and the slump in the world price of copper - which accounts for 90 per cent of export earnings - have taken their toll.

But nationalisation, price controls, bureaucratic regulations and corrupt mismanagement have had a more perni-

cious impact on an economy which at independence was predicted to be facing a brighter future than that of most African nations.

The economy first started to dive in the early 1970s as the policies of nationalisation collided with falling copper prices and rising oil costs.

From 1974-1983 real gross domestic product declined by 30 per cent. During that decade debt service payments, before rescheduling, almost reached a level equivalent to total export earnings. The government tightened price control and extended subsidies on basic consumer goods - fuelling the budget deficit and inflation and discouraging domestic agricultural production.

In the face of a critical maize shortage this year the government has had to arrange a \$45m (\$26.3m) foreign exchange facility to import 150,000 tonnes of maize from South Africa. Copper, too, has suffered from nationalisation. The industry is facing a severe shortage of new investment and rising production costs.

The opposition has capitalised on the widespread economic discontent. Its campaign posters stress the failures of Unip rule with images such as schools without windows and desks, and hospitals without

Kaunda: faces strongest challenge of his political career

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Nafta teams 'set to start work on treaty text'

By Damien Fraser in Zacatecas, Mexico

THE third ministerial meeting of the North American free trade talks (Nafta) has ended in Zacatecas, Mexico, with negotiators saying they are ready to start working on the text of the treaty.

But the trade ministers, while claiming the meeting was a success, did not offer any details on where progress had been made. However, a senior US trade official punctured some of the official optimism by saying: "We are not at the point where a lot of these [trade] issues are ready to be decided."

In contrast to earlier suggestions by Mexican officials, he said a full draft agreement would not be ready for the fourth ministerial meeting, scheduled for January next year.

The Zacatecas meeting, the most important of the three so far, was the culmination of four months' talks in which Mexico, Canada and the US identified barriers to trade between them, analysed the effects of removing them, and laid down aims for the free trade pact.

Mr Jaime Serra Puche, Mexico's trade minister, said the preliminary talks were over. The three countries would soon negotiate removal of tariff and non-tariff barriers.

determination of North American rules of origin for products, and setting up dispute mechanism procedures. This process would lead eventually to exchanging of texts.

The Zacatecas talks covered the car, textile and energy sectors, reflecting the deep splits between the three countries on how to liberalise these industries.

"We did not solve problems by a long shot, but in the end we accomplished something," a US official said. President Carlos Salinas de Gortari of Mexico may have speeded an agreement on energy by promising last week to reduce the number of petrochemicals whose production was exclusively reserved for the state.

The negotiators did not discuss the possibility of giving special treatment to the car companies already located in Mexico, one of the most controversial demands of the US big three car companies. Mr Serra stressed that so-called parallel issues, the proposed pact's effects on the environment and labour, would not be part of the treaty.

The Zacatecas meeting comes as US officials, unlike their Mexican counterparts, seem to be damping hopes that an agreement could be reached in 1992.

Time Warner in Hungarian cable TV joint venture

By Karen Zagor in New York

TIME Warner, the US entertainment giant, is entering the Hungarian cable television market through a joint venture with United Communications International, a Denver-based company already operating a cable television service in Hungary.

Time Warner's Home Box Office (HBO) pay television film channel started broadcasting in Hungary last month. As well as offering a list of films from Warner Brothers and Twentieth Century Fox, HBO has reached an exclusive

agreement with MOKEP, a Hungarian distributor, to show Hungarian films.

HBO has a strong presence in the US, with revenues of about \$1.3bn (£760m) last year, but has yet to expand widely in overseas markets. The Hungarian venture marks its first move into Europe, as HBO's only foreign venture outside Latin America.

United Communications International is a partnership between United International Holdings and US West, a company carved from the AT&T break-up.

India stays closed for insurance industry

But business thinks more competition would improve services, writes Kunal Bose

THE announcement by Dr Manmohan Singh, India's finance minister, that New Delhi will not allow foreign general insurance companies to market services and products in the country, should end speculation, for the time being, that the Indian insurance market will be thrown open gradually.

The speculation started when the issue of re-entry of foreign insurance companies was taken up for discussion during the brief tenure of the Chandra Shekhar caretaker government. The US, especially, had been pressing New Delhi to let its insurance companies operate in India. US companies have expressed displeasure that New Delhi, which nationalised the general insurance industry 17 years ago, has refused to let foreign companies market products and services on a selective basis. Their basic interest is in fire, marine and hi-tech industry insurance business.

The decision to keep the foreign companies out stems partly from the fact that the market would have to be opened up first to the Indian private sector. There is already some foreign insurance involvement in reinsurance and marine freight insurance. But it has come as a disap-

pointment to Indian industry and commerce, which thinks more competition would improve customer service. There is also an element of surprise, since the government is pursuing a broad policy of economic and financial liberalisation with an eye to attracting foreign investment.

But, according to Mr S.V. Mony, chairman of the General Insurance Corporation (GIC), an element of competition was built in when 107 companies, including branches of foreign companies, were amalgamated into four companies: National Insurance, New India Assurance, Oriental Insurance and United India Assurance. GIC is the holding company.

All four operate on an all-India basis. Since the tariff structure is uniform, clients are won or lost depending on services offered, Mr Mony said. Even then, he admits, much needs to be done "in sensitising our personnel to customer requirements and gearing up the training mechanism to that end". The 10-year strategic plan for the industry now being prepared will focus on developing human resources with the aim of improving customer service. By the year 2000, the industry will be handling a premium income of Rs120bn (£2.7bn), a volume



Rural India: an emerging insurance market

which will justify computerisation. Mr Mony and senior executives are concentrating on convincing the unions that computerisation should not be seen as an anti-labour move.

The insurance companies will be unable to achieve any big improvement in customer service until the unions agree to computers being used to prepare policy documents and process claim settlements. Management intends to deploy those workers made redundant by computers to improving personal contacts with clients. The unions have been told no

"The decision to keep foreign companies out stems partly from the fact that the market would have to be opened first to the Indian private sector"

overall job cuts will be made.

Since the industry was nationalised, general insurance business has taken on a new complexion. Besides continuing to offer insurance cover to industry, trade and transport, it is being required to develop products and services for India's vast rural and semi-urban areas.

Some of the products designed for the rural areas such as failed-well and agricultural insurance have given a negative return to the insurance companies, but they have made a positive impact on the rural economy, Mr Mony says.

Certain insurance covers such as hut insurance and a personal accident social security scheme are fully funded by the government but administered by the insurance companies. These schemes are specially designed for the poorest sectors of Indian society. Most insurance cover for India's

rural and semi-urban areas need to be subsidised, but fulfil a primary aim of nationalisation. Mr Mony says the industry plans to penetrate the rural and semi-urban areas more deeply. Personal insurance will be the main campaign focus.

He is satisfied with the industry's performance in the post-nationalisation period. Total gross direct premium written has grown from Rs1.84bn in 1973 to Rs28bn last year. The industry, through more than 4,000 offices and over 80,000 employees, is marketing its products and services throughout the country, except some virtually inaccessible areas. Not all these offices are viable, but a large network must be kept up to fulfil a main aim of nationalisation.

Mr Mony says one feature of the Indian insurance industry is its steady growth since 1973. A solid capital and reserve base of Rs14.55bn has let it withstand adverse business conditions. But he says the industry must now look to developing a new range of products for high-technology industries, redesigning many existing insurance covers and their pricing. The recent liberalisation of economic and trade policies also demands a more professional approach to customer service, he adds.

US signals progress for China talks on copyright

By Nancy Dunne in Washington

THE Bush administration has indicated some progress in its efforts to propel China along a path of intellectual property rights protection, by failing to publish a list of potential trade sanctions.

US trade officials hope for a breakthrough which will allow them to avoid retaliation. This could come when Mrs Carla Hills, US trade representative, meets Chinese officials between November 12-14 at an Asia-Pacific Economic Co-operation (Apec) meeting in Seoul.

The US demand that Beijing put into place protection for patents, trademarks and trade secrets is one of several issues aggravating their relationship. Mrs Hills has initiated a formal complaint against Chinese import barriers, and the US Customs Service has cracked down on shipments of goods which may have been made by prison labour.

Last April, Mrs Hills placed China, with India, on the "Special 301 Priority Watch List" for failing to protect US copyrights, trade secrets and patents of pharmaceuticals and other chemicals. Worldwide piracy of all forms of intellectual property costs US industry hundreds of millions of dollars a year.

The "Special 301" provision gives the US trade representative six months to convince US trading partners to change the "aggressive" practices which "result in an adverse impact on US industry. Talks can be extended by three months if agreement seems near.

The six-month deadline is November 26, and the trade representative was due to publish a list of potential sanctions last Friday. But on that day, Mr Joseph Massey, assistant US trade representative for Japan and China, finished several days of hard bargaining in Beijing and left for Washington.

Trade officials will use the next 30 days to assess progress and push for further concessions. US officials have announced their "pleasure" with the results of four sets of recent talks with India.

San Francisco tram contract goes to Italy

ITALY'S state-owned Breda railway group has made further inroads into the US mass transit market by winning a \$82m (£47.5m) contract to supply trams to San Francisco. Robert Graham reports from Rome.

The order, from the San Francisco Public Utilities Commission, is for 35 vehicles with an option on another 20. They will be used on city-centre routes, carrying 62 passengers seated and 164 standing.

The trams will be made in Italy with final assembly in the US, with General Electric engines. Breda, controlled by Efim, the state industrial holding company, has supplied subway cars to Cleveland, Los Angeles, and Washington, and dual-propulsion buses for Seattle.

JAL orders 20 Boeing 777s in deal worth about \$2bn

By Paul Betts, Aerospace Correspondent

JAPAN Airlines (JAL) became the latest customer for Boeing's new 777 twin-engine wide-body airliner yesterday, with an order for 20 aircraft worth about \$2bn (£1.1bn).

The JAL order is a blow for both the European Airbus consortium and McDonnell Douglas of the US, which were both competing against Boeing. McDonnell Douglas had hoped to interest JAL in its new MD12X three-engine airliner, a stretched derivative of its MD11 wide-body aircraft. The European Airbus consortium was also seeking to clinch the JAL order with its new A330/A340 wide-body aircraft.

JAL follows All Nippon Airways, its Japanese competitor,

in ordering the new Boeing 777 airliners. The JAL deal involves 10 firm orders and options for another 10 aircraft, with deliveries starting in 1995.

British Airways, United Airlines, Lufthansa of Austria and Euroair of France have also ordered 777s. The new \$4bn airliner programme was launched by Boeing last year. It includes three Japanese partners: Mitsubishi Heavy Industries, Kawasaki Heavy Industries, and Fuji Heavy Industries, which between them have a 20 per cent share in the project.

JAL said it plans to use its new 777 fleet on short- and medium-range domestic and Asian flights. It had not chosen what engine would power its

777s, but is expected to decide within six months. The three top engine makers, General Electric and Pratt & Whitney in the US and Rolls-Royce in the UK, have been battling to win engine orders for the new 777 market.

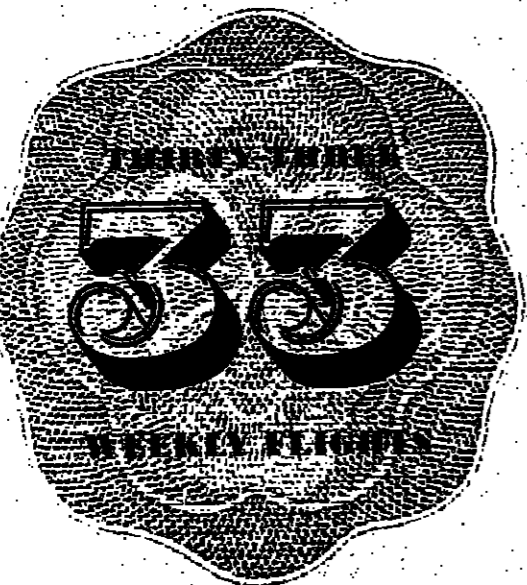
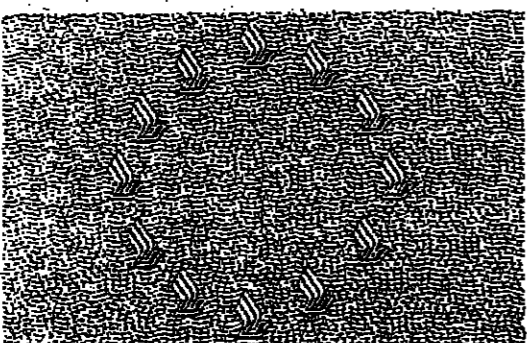
Rolls-Royce does not seem strongly placed to win the JAL 777 engine order. JAL opted for Pratt & Whitney engines for the 20 MD11s it ordered from McDonnell Douglas last year, and General Electric engines to power its fleet of Boeing 747-400 jumbos. The JAL order is a boost for Boeing, which yesterday reported a \$95.9bn backlog of unfilled orders at end-September, down from \$98.2bn the previous quarter.

Murdoch signs deal for Finnish paper supplies

MR Rupert Murdoch, the publisher, has signed a three-year agreement with Fimppap, a Finnish paper marketing association, to supply News Corporation with 150,000 tonnes of paper a year for a cost of over FM400m (£56.5m). Enrique Tessier reports from Helsinki.

Fimppap said annual paper supply amounts stipulated in the agreement were minimum amounts and could exceed 150,000 tonnes a year. Fimppap deliveries to News Corporation will mostly consist of newsprint and to a lesser degree, uncoated and coated magazine paper grades.

Finnish groups supplying News Corporation with the paper will be Metsä, Serla, Myllykoski, Tampella, Veitsiluoto and United Paper Mills.



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UK NEWS

UIP tries to break up 'monopoly' on satellite television

By Raymond Snoddy

United International Pictures (UIP), distributor for three Hollywood studios, has begun legal action to try to break up British Sky Broadcasting (BSkyB), the UK satellite television venture on the grounds that it is an anti-competitive monopoly.

UIP has filed an action in the London High Court alleging that under European Community rules the merged BSkyB has abused its dominant position in the pay television market.

The action is being taken against British Satellite Broadcasting and Sky Television which merged last November and also the principal shareholders involved News International, Pearson (publishers of the Financial Times), Chancery, Reed International and Granada.

The action by UIP, which represents Paramount, MCA and MGM-Pathe, was filed at the same time as a defence to legal action against UIP by BSkyB.

In September the UK satellite television company issued a writ against UIP on the grounds that the combining of three studios under a single distribution arm was anti-competitive. BSkyB is seeking £150m in damages and the setting aside of an \$800m film deal.

In turn UIP is now seeking substantial, but unspecified damages, against BSkyB.

Mr Gary Marenzi, president of the Pay TV division of UIP said yesterday: "We are serious about this because it is basically anti-competitive and they have been more and more as a monopoly over the last few months."

Mr Marenzi cites the BSkyB decision to raise subscription rates at the beginning of this month and variables with cable television operators about conditions for carrying the new Comedy Channel.

Organisations such as UIP are also concerned that when present film rights run out they could be negotiating with a pay television monopoly.

UIP is now arguing there should be a de-merger of BSkyB into its original parts BSB and Sky Television. The restoration of "an economically viable BSB would restore competition to the benefit of consumers and suppliers," the company said yesterday.

Sales teams to merge at TV stations

MR TONY Vickers, sales director and deputy managing director of TV-am, is to become group sales and marketing director of Sky Television, the satellite television venture, Raymond Snoddy writes.

The appointment comes less than two weeks after TV-am lost its breakfast franchise to Sunrise in the competitive tenders for new 10-year licences.

Mr Vickers move has the blessing of Mr Bruce Gynell, the TV-am chairman and his board. It amounts to a merger of the advertising sales teams of TV-am and Sky each of which has a staff of about 30 each. The deal could lead to other co-operative deals between the two broadcasters.

A joint advertising sales team will now be formed which, apart from selling advertising for the Sky Television channels will also represent TV-am until the end of its franchise.

The TV-am sales force will be able to apply for jobs on the Sky team but it is clear there will be some jobs losses.

EC social action plan would hinder small business growth

By Charles Batchelor

THE European Commission's social action programme, which will harmonise social security rights throughout the community, could severely damage the growth of small companies in Britain, Mr Michael Howard, employment secretary, warned yesterday.

The UK government accepts most of the programme's 47 proposals but rejects 10 which it believes will add to the costs of employers both large and small, undermine competitiveness and put jobs at risk, he told a conference organised by eight UK business organisations.

The government and the business groups are most concerned about the impact of directives to regulate working hours, the conditions of temporary and part-time workers, night working and benefits for pregnant women.

The government estimates

UK ECONOMY

Stock market records biggest one-day rise for two months

By Peter Marsh, Economics Staff

THE London stock market yesterday cast off some of its recent depression, as hopes of a brighter outlook for the economy sparked the biggest one-day rise in share prices for two months.

Expectations that today's quarterly industrial trends survey by the Confederation of British Industry, the employers' organisation, will indicate an increase in business confidence were a key factor behind the rise, which came after a large drop

in prices last week. The market was also looking ahead to the annual Mansion House speech in the City of London on Thursday by Mr Norman Lamont, when the chancellor of the exchequer is expected to give an upbeat view of economic prospects over the next few months.

In spite of the increased investor interest in equities, which was most apparent in blue-chip stocks such as Imperial Chemical Industries and

Glaxo, trading volumes were low and the rise in prices lacked momentum. Ms Ruth Lea, chief UK economist at Mitsubishi Bank, said: "The concrete evidence about a recovery is thin."

Last night, the FT-SE 100 index of leading stocks closed at 2,558.5, up 43.8 on Friday's close. The rise was about half the drop in prices last week, when the market was hit by worries about the strength of the recovery and a possible Labour victory in the general election.

The London market now stands at about the same level as in mid-August, which is when it last experienced a comparable one-day increase.

The buoyancy in share prices came against the background of the widely expected failure of the British Aerospace rights issue. It was helped by anticipation that the CBI survey will raise hopes of an export-led recovery.

The survey, which exactly a year ago provided one of the first indications of the likely depth of the recession, has a strong track record in predicting changes in the economy.

It will be published after similar polls of business opinion have pointed to growing confidence that sales and profits will soon start to rebound, and as retailers begin to build up hopes that Christmas will coincide with a much-delayed surge in consumer spending.

The fragile indications of recovery were, however, scorned by Mr Neil Kinnock, the Labour leader.

Touring a factory in Langbaurgh, Cleveland, he said Britain was still awaiting signs of a rise in investment and employment. "What we need most of all is an investment-based recovery that will give us strength and a better competitive edge."

Lex, Page 22, LSE, Page 31, BAE rights issue, Page 23

Leading companies to review equal opportunities for women

Diane Summers examines the latest goals set by household names

A TOTAL of 62 organisations, the majority of them household names, were signed up for the Opportunity 2000 campaign by the time of its launch yesterday. The aim is to double the number of companies involved over the next six months.

Each of the participating organisations publicly set out its goals for employing and promoting women during the rest of the decade. These goals were published in summary form by Business in the Community, the voluntary organisation leading the initiative.

Most of the companies featured below focus their equal opportunity policies on numerical goals, which are arguably the most tangible evidence that companies mean business on equal opportunities issues.

BBC

The BBC has been one of the leading organisations in setting numerical targets for the promotion of women. No new figures were released yesterday, but existing targets are for the following female/male ratios: 30/70 for senior executive grades, 40/60 for senior management, 40/60 for management.

These targets are to be reviewed in 1996 and further targets set for the year 2000.

The BBC intends to introduce more sophisticated monitoring procedures, further flexible working arrangements, and a policy and procedure to deal effectively with harassment at work.

British Airways

Out of 50,000 British Airways staff worldwide, 32 per cent are women. Stated principal goals announced yesterday to be

achieved by the year 2000 are: "Women employed at all levels in the airline's UK workforce will reflect the proportion of women currently employed in the total UK workforce. (1991: 32 per cent; 2000: 42 per cent). Women managers in the airline's UK workforce will reflect the proportion of women currently in full-time employment in the total UK workforce. (1991: 20 per cent; 2000: 27 per cent.)"

An equality steering group, chaired by the director of human resources is to prioritise and implement recommendations for action.

Departmental equal opportunity objectives are to be incorporated into the performance appraisal system for managers.

IBM (UK)

IBM has set itself four goals: "To contribute externally to the advancement of women in the national workforce; ensure that the company takes full advantage of the economic potential of women in the workforce; encourage women employees to realise their full potential; and increase the representation of women in senior management positions."

To achieve these goals the company is aiming for 30 per cent of its graduate intake to be female and at least one of its directors to be a woman by 1995.

Chartered Institute of Management Accountants

The professional body for management accountants announced that it aims to increase the proportion of its 31,000 members from the cur-

rent 7 per cent who are female to 20 per cent female membership by the year 2000.

It also aims to increase the percentage of women fellows of the institute from 1.7 per cent to 6 per cent by the end of the century, and to reflect the composition of the growth in women membership within senior levels of staff within CIMA.

Action will include improving recruitment literature to provide role models for aspiring women, management accounts, and investigating possible barriers to women's progress.

J Sainsbury

Over 95,000 staff, of whom about two-thirds are women, are employed in over 320 supermarkets and 60 DIY stores. At the end of the last financial year there were over 5,000 women managers, representing 40 per cent of total management.

New measures announced yesterday included scholarships to Sainsbury's women weekend student employees who are going on to higher education to take courses in areas in which women are traditionally under-represented, such as retailing.

Grand Metropolitan

Women currently account for about 14 per cent of Grand-Met's senior managements out of a workforce of 41,000 in the UK, 67,000 in the US, 7,000 elsewhere in Europe and 8,000 in the rest of the world.

To improve the level of female representation, the group plans to set renewable three-year plans for each business and will ensure each com-

pany has specific programmes to address family responsibility issues.

Kingfisher

The retailing group, which includes B&Q, Comet and Woolworths and employs over 61,000 people in the UK, currently has 69 per cent female employees. A total of 31 per cent of managers in the group are women.

Goals set within the group include: increasing the percentage of women in management from 14 per cent to 20 per cent within five years, with 50 per cent more women at senior management level (Superdrug); recruiting 80 per cent of all management vacancies internally by 1995 (Woolworths); increasing the representation of women in the workforce to 40 per cent (Charlie Browns).

National Westminster Bank

In 1979 women formed 4 per cent of management among NatWest's 111,000 employees; by June 1991 this had risen to 16.5 per cent.

The principal goals of the clearing bank, one of Britain's largest, is now to raise the percentage of women in the management team to 33.3 per cent by the year 2000.

Action will include the introduction of new training and development programmes, inclusion of women on all shortlists for junior management posts, a widening of flexible working to management positions, and a six-monthly progress review by the board of directors on equal opportunity issues.



Diane Summers

WOMEN AT THE TOP

	Number of women	Total jobs
Cabinet	0	22
Government ministers	7	108
Chief executives	0	36
Chairmen, presidents (non-exec)	11	131
Chairmen, presidents (exec)	0	17
MDs, directors	0	20
SP-directors	0	17
Executive board members	1 (non-exec)	23
London Stock Exchange	0	23
Medium & Small Enterprises	1 (non-exec)	16
National Westminster Bank	1 (non-exec)	22
designs	0	19
Lords of Appeal	0	27
Appellate Court judges	0	62
High Court judges	0	439
County judges	20	450
Local Council chairmen	2	74
Trade union general secretaries	2	21
National Association of Teachers	2	4,000
Secondary school headteachers	1,000 approx	12
British Coal directors	0	19
British Rail directors	2 (non-exec)	11
Post Office directors	0	43
Police board	0	127
Chief executives	0	551
Chief executives	1	551
National Health Service managers	3,500 approx	10,000

Rank Xerox

Out of 4,500 employees in the UK and Ireland, about three-quarters are male - 78 per cent are male in sales and mar-

keting. The company has set itself the target of increasing the percentage of women in management levels to 25 per cent in 1995. At that point, goals for the year 2000 will be

set, says the company. Child-care support options are to be reviewed and opportunity integrated into the review of mainstream goals. Editorial Comment, Page 20

BRITAIN IN BRIEF



Miners' union plans coal buy-out

Lloyds Merchant Bank is working on a plan for an employee buy-out of British Coal by the Union of Democratic Mineworkers (UDM), the bank has revealed.

The plan will rival the controversial proposal for the privatisation of British Coal from N. M. Rothschild, the government's adviser on the sale.

The bank will consider the options for a UDM buy-out of the whole or part of British Coal, should the company be privatised.

Rival to British Gas to be set up

Eastern Electricity is setting up a gas-marketing subsidiary, bringing new competition for British Gas. The subsidiary, e gas, is a joint venture between the privatised regional electricity company and UtiliCorp UK - a subsidiary of UtiliCorp United, the US gas and electricity group - which has 25 per cent of the company.

E gas will supply medium-sized commercial and industrial customers taking between 25,000 therms and 200,000 therms of gas per year.

Ashdown reveals policies

Mr Paddy Ashdown, leader of the Liberal Democrats, has implicitly acknowledged that the party could be involved in political horse trading if the next general election ends in stalemate. But he refused to be drawn on the conditions his party would lay down.

Mr Ashdown outlined five constitutional measures the party would campaign on, including home rule bills for Scotland and Wales.

Increase in sick pay costs

Sick pay costs, as a proportion of total labour costs, have increased in nearly one organisation in three over the past four years, according to an Industrial Relations Services survey. The survey finds that sickness absence is higher for manual workers with levels of absence reaching 4 to 5 per cent compared with 2 to 3 per cent for non-manual workers.

Kinnock urges investment

Recovery from the recession must be based on investment by businesses, not just on a rise in consumer spending, Mr Neil Kinnock, the Labour leader, has said (pictured above).

Mr Kinnock, speaking in north-east England during a by-election visit, said that the latest reports from chambers of commerce suggested a "faltering recovery".

He said they reported a continued fall in investment in new plant and machinery and little likelihood that employment, especially in manufacturing industry, would recover for another two to three years.



Prison dispute is called off

Industrial action at one of the busiest jails in Britain has been called off after the Home Office agreed to draft in extra staff from other jails.

The Prison Officers Association at Brixton prison started refusing to take new prisoners from Friday night in a dispute over manning levels in the prison which has an official capacity of 729 but currently houses 1,000.

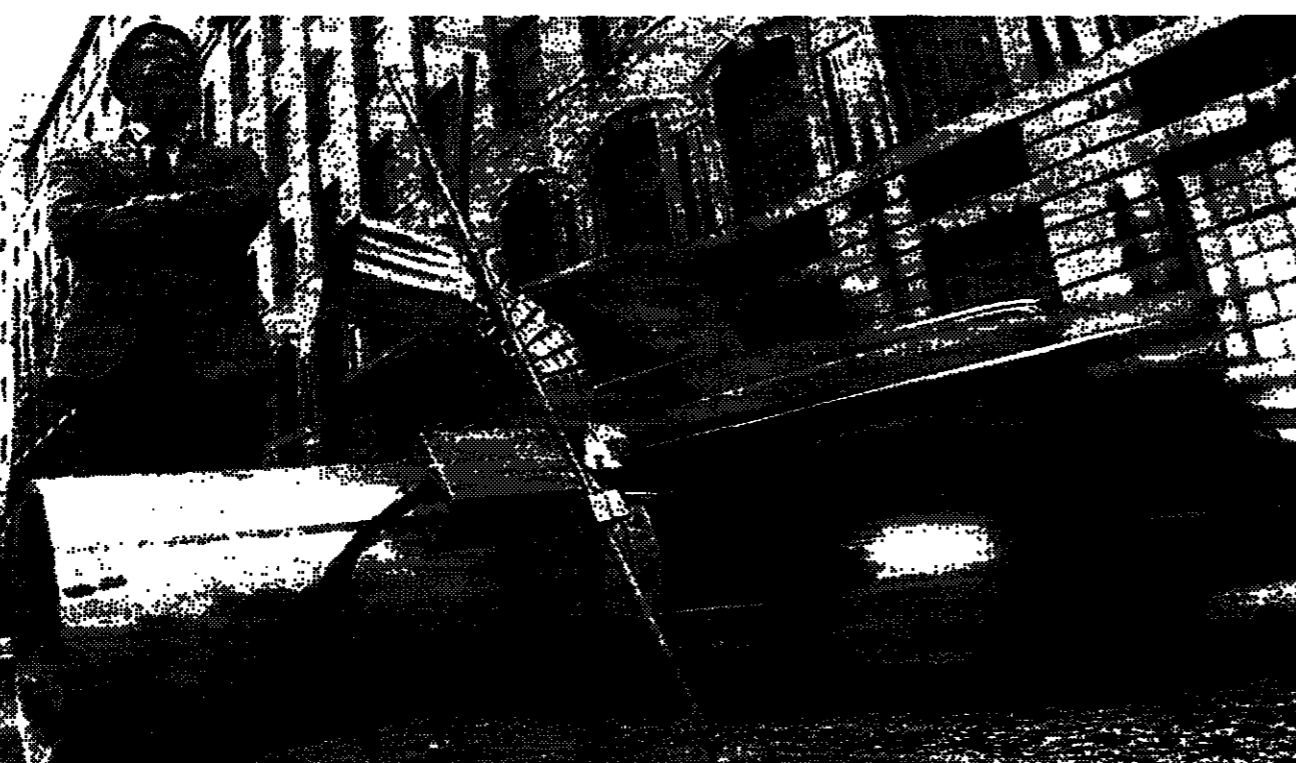
It is the second time in one week that the POA has backed off from industrial action. In the first case, at Wakefield Prison, the union said it did not want to give the government an excuse to "smash the union".

Job losses at Rolls-Royce

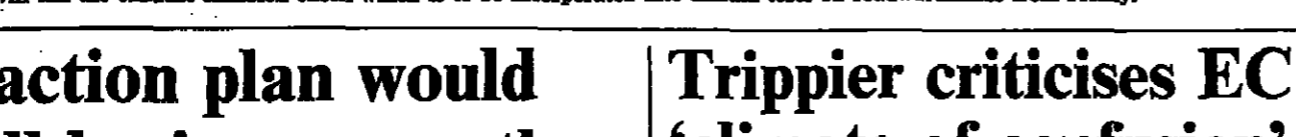
Rolls-Royce Motor Cars, the UK luxury car maker and a subsidiary of Vickers, is to cut another 420 jobs at its plant at Crewe, Cheshire in response to the continuing slump in its worldwide sales. The latest redundancies means that the company will have reduced its UK workforce by more than a third this year to just over 3,100 from 4,650 at the end of last year. It has already cut some 1,350 jobs. The company said that some compulsory redundancies appeared inevitable.

Attack on education

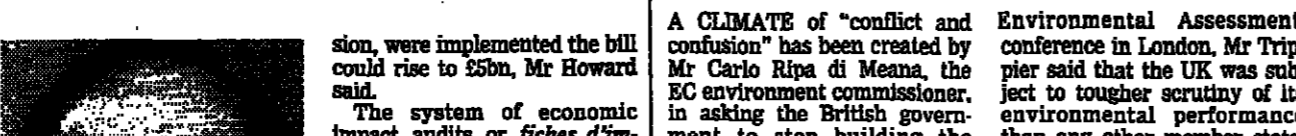
Comprehensive schools fail to encourage children sufficiently, and policies recognising differences between pupils' abilities and aptitudes should be devised, according to a leading educationalist at the Centre for Policy Studies. Mr John Marks, writing for the Social Market Foundation, condemns "a climate of opinion which has stressed equality of outcome before equality of opportunity" in education.



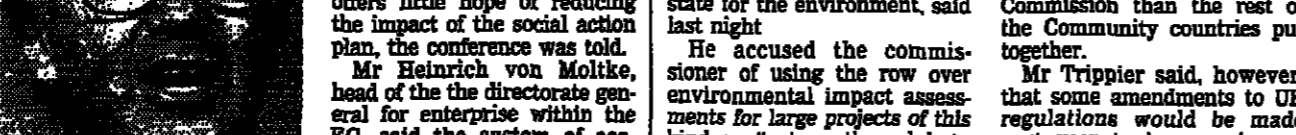
Prof Donald Stedman from Denver University, Colorado, tests his anti-smog invention on the streets of Blackfriars, London. The device uses an infra-red beam to measure carbon monoxide emissions from passing vehicles and incorporates a video camera to film registration numbers. Prof Stedman's invention is being used by the Royal Automobile Club to assess what percentage of vehicles will fail the exhaust emission check which is to be incorporated into annual tests on roadworthiness from Friday.



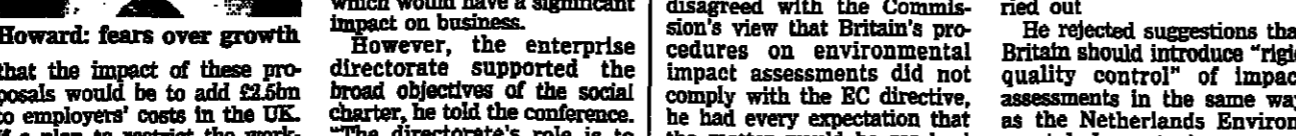
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Trippier criticises EC 'climate of confusion'

By John Hunt, Environment Correspondent

A CLIMATE of "conflict and confusion" has been created by Mr Carlo Ripa di Meana, the EC environment commissioner, in asking the British government to stop building the Channel tunnel link and six other large projects, Mr David Trippier, minister of state for the environment, said last night.

He accused the commissioner of using the row over environmental impact assessments for large projects of this kind as "yet another club to beat a member state into environmental submission."

Although the government disagreed with the Commission's view that Britain's procedures on environmental impact assessments did not comply with the EC directive, he had every expectation that the matter would be resolved to the satisfaction of the Commission and the UK.

Speaking to the Institute of

Environmental Assessment conference in London, Mr Trippier said that the UK was subject to tougher scrutiny of its environmental performance than any other member state. This was because Britain's environmentalists made more complaints to the Brussels Commission than the rest of the Community countries put together.

Mr Trippier said, however, that some amendments to UK regulations would be made next year to improve impact assessments. His department would be issuing guidance on this and a study was being carried out.

He rejected suggestions that Britain should introduce "rigid quality control" of impact assessments in the same way as the Netherlands Environmental Impact Assessment Commission had done. It was, he said, impossible to lay down hard and fast rules

sion, were implemented the bill could rise to £5bn, Mr Howard said.

The system of economic impact audits or *fiches d'impact* in use in the European Commission to assess the effect of proposed legislation offers little hope of reducing the impact of the social action plan, the conference was told.

Mr Heinrich von Moltke, head of the directorate general for enterprise within the EC, said the system of economic impact audits had been modified to concentrate only on those legislative proposals which would have a significant impact on business.

However, the enterprise directorate supported the broad objectives of the social charter, he told the conference. The directorate's role is to ensure that harmonisation is achieved on the best terms for business.



Howard: fears over growth

that the impact of these proposals would be to add £2.5bn to employers' costs in the UK. If a plan to restrict the working week to 48 hours, proposed by some member states though not by the European Commis-

sion, were implemented the bill could rise to £5bn, Mr Howard said.

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like a nice cup of tea, a good Agatha Christie,
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Electric—an enterprising and mutually beneficial grouping that includes VCR and TV production centres in Scotland. Research and production facilities in Europe. And a London-based component purchasing centre that recognises no borders in its search for quality, reliability, top-

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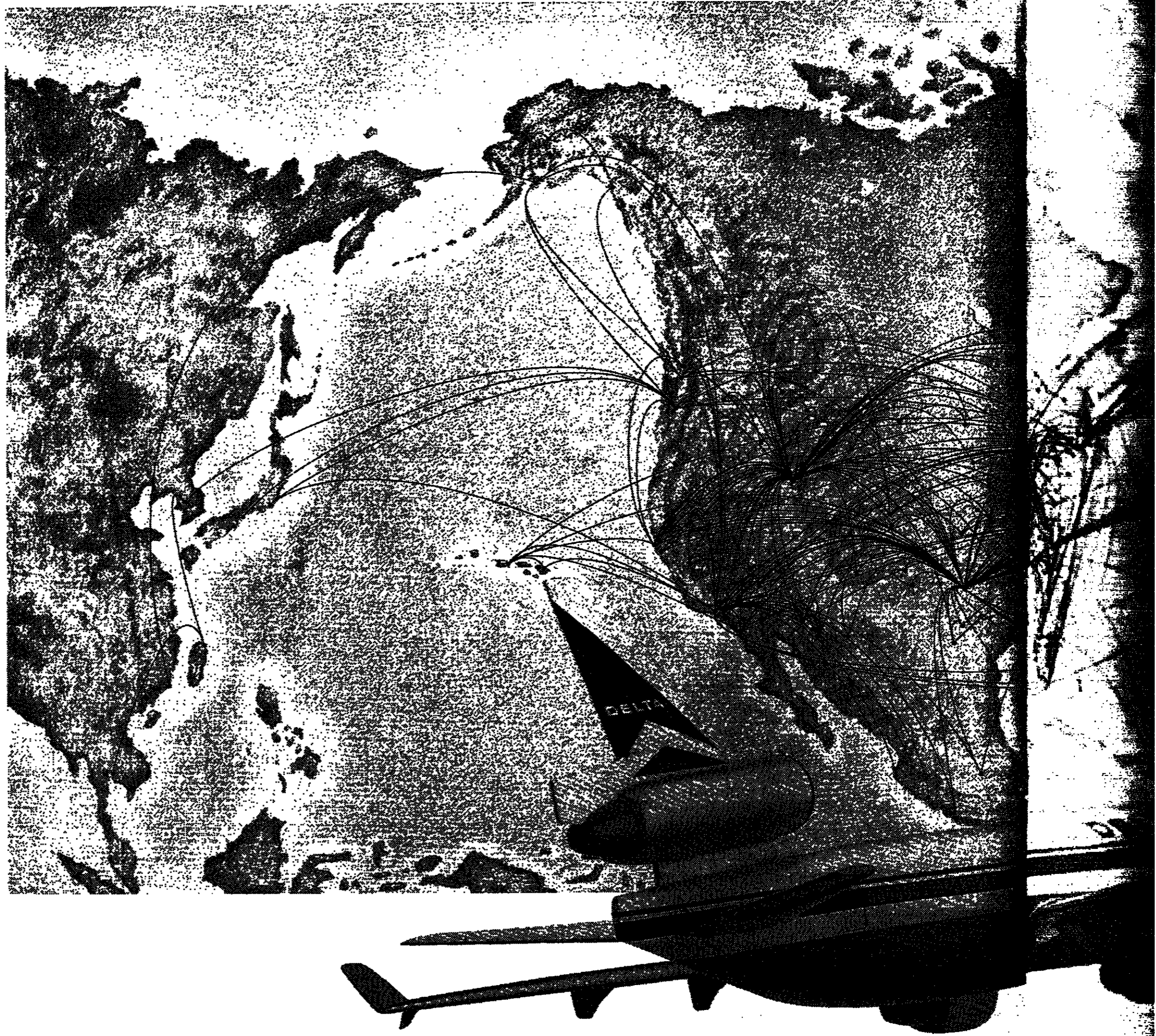
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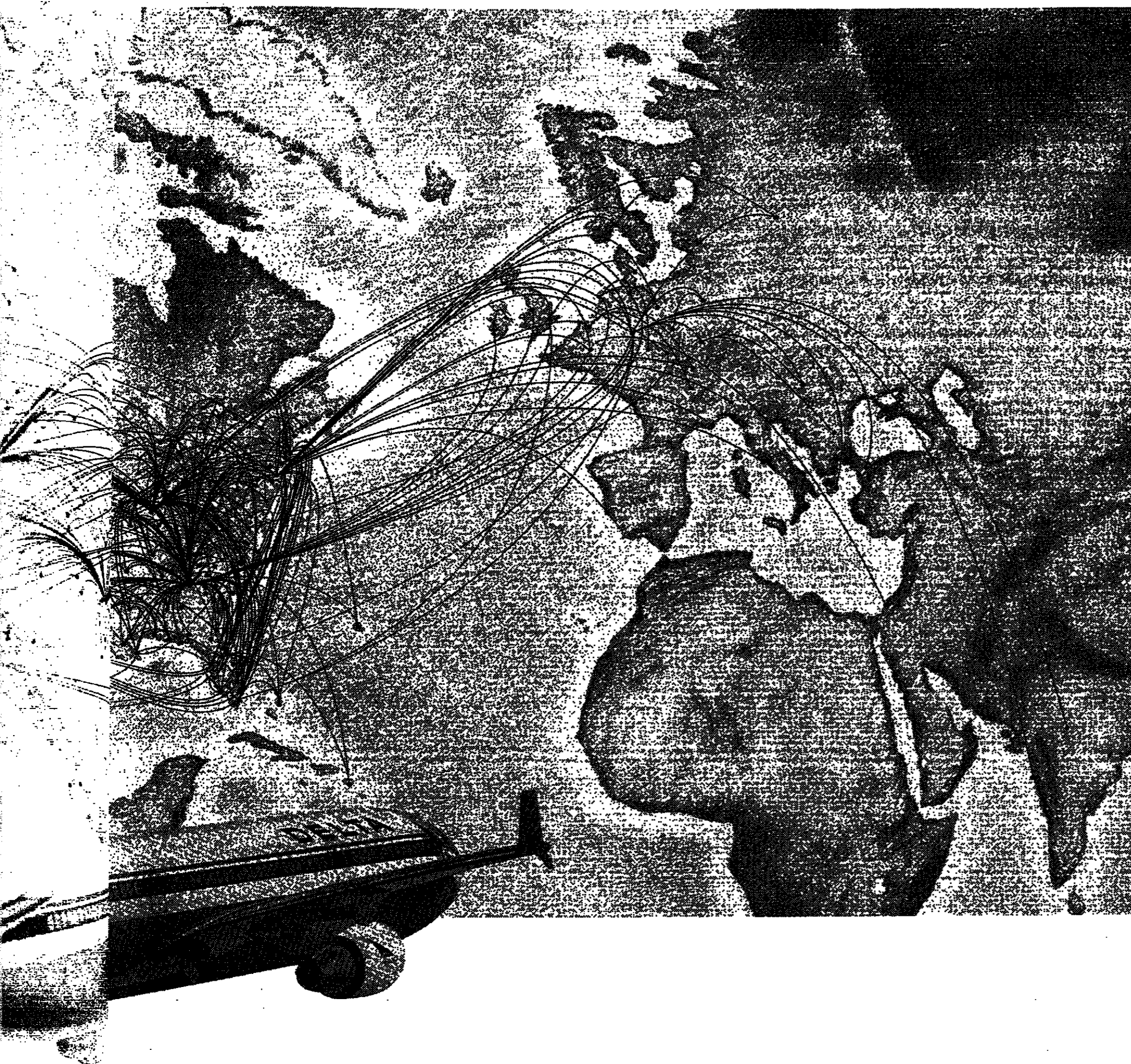
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TECHNOLOGY

Satellite phones set for sky wars

By Hugo Dixon

Satellite telephones hit the public consciousness early this year when journalists were heard giving accounts of the Gulf war from their hotel bedrooms in Baghdad. But, for all their ability to operate in far-flung corners of the earth, the current generation of satellite phones will never appeal to the mass market: the cost of using them is about \$10 (\$5) a minute and the phones themselves come in a hefty briefcase-sized container.

The battle, however, has now started to produce the next generation of phones which should be about the same size as a normal cellular handset and cost perhaps \$1 a minute to use by the end of the century. Four different groups have entered the fray.

Motorola, the US electronics manufacturer, has the most advanced venture. Its Iridium subsidiary plans to put up 77 mini-satellites encircling the globe at a cost of \$3.4bn. The difference between Iridium's satellites and most communications satellites is that they will be low-orbit satellites - placed only 413 nautical miles above the earth's surface compared with the normal 22,000 miles. The disadvantage is that they will move their position in relation to the earth's surface - they will not be geostationary - but the advantage is that much less power will be required to communicate, allowing the handsets to be smaller.

When Motorola announced its plan last year, it thought it had signed up the International Maritime Satellite Organisation, which provides the existing satellite phone service, as a partner. But Inmarsat, owned by 65 of the world's telephone companies, last month unveiled its own scheme which involves a mixture of low-orbit and geostationary satellites.

The other groups are Globalstar - consisting of Alcatel and Aerospaciale of France; Italy's Alenia and Loral Space Systems of the US - and Hughes Aircraft of the US.

Not to be thrown off balance by the competition, Iridium this month strengthened its management team by hiring Robert Kinzie, currently director of strategic planning for the International Telecommu-

nications Satellite Organisation, as chairman. Motorola has also signed a memorandum of understanding with Lockheed of the US and Matra Marconi, the Anglo-French space venture, to help it develop the technology.

Most importantly, it is trying to raise \$1.75bn in a private placement of its shares by November 15. The main buyers are expected to be international telecommunications carriers and Motorola itself. The carriers would also eventually market the service in their countries, taking a share of the revenue in return.

The outcome of this private placement may determine the battle between Motorola and its rivals. If it is successful, Motorola will have won over to its side some of Inmarsat's main shareholders. It is unlikely that they will want to back both projects.

Moreover, the support of the carriers will be essential if Iridium is to clear the host of regulatory barriers that stand in its way. First, it wants next year's World Administrative Radio Conference to confirm which frequencies would be allocated for this type of service. Second, it wants a licence to operate in each country of the world. If the carriers - which are still mostly government-owned - were fully on board, it would be easier to secure these.

Two main doubts remain about Iridium and its rivals. Will they be technically feasible in the timeframe being discussed? This question relates particularly to Iridium, whose scheme requires calls to be passed from one satellite to another through the atmosphere before reaching earth.

Will they be a commercial success? The snag is that in the biggest telecommunications markets - the US, Europe and Japan - there is unlikely to be much demand for satellite phones.

Iridium talks about providing services in places like Africa, where there is unlikely to be enough demand to build cellular systems. It is also clear that journalists in 1988 found a coup in Tibet would find the service an improvement on today's satellite phones. Would this, though, constitute enough demand to justify 77 satellites?

Dave Madden describes how to assess whether your computers are capable of doing the job

A test of strength



Investing in a computer system on the basis of the manufacturer's benchmark statistics is a bit like buying a car after watching its rev counter. Yet, says Andrew Hubbard, director of systems performance consultancy Xteam, that is exactly the predicament now facing IT managers.

Increasingly, organisations from BP to the Inland Revenue are committing their critical commercial applications to open environments, typically based on Unix systems. But the fact is that while IT departments have a generation of experience specifying mainframe systems to support these applications, they know next to nothing about configuring open architectures.

Assessing the probable performance of a new Unix computer in anything like a realistic environment is not straightforward - but it is imperative.

"What size of machine do I need? And from whom? The whole point is that there is a multiplicity of hardware suppliers," says Robert Burford, director of systems house Data Logic. There are as many variables in choosing software environments too.

Paradoxically, the basic logic of open systems - greater choice and flexibility - complicates the process and moves responsibility for sizing and specifying systems on to the buyer.

In complex multi-vendor environments it is much more difficult to point the finger at your suppliers if your applications are not delivering the performance you need.

Hardware makers supply a profusion of "independently verified" performance indicators or benchmarks. This wealth of statistics is, perhaps, part of the problem. They help you to compare like with like, but they do not help you to assess how your own application will perform. Even the TPC-B benchmark, based on a notional banking transaction, is no indicator for the real world, says Burford. "Live transactions are often much more complicated," he says.

So short of coming the world for a real model - and there are very few big commercial multi-vendor Unix systems yet - how can you minimise your investment risk?

Neither hardware nor database vendors - and increasingly it is the database that is chosen first - are oblivious to the issue. The likes of Hewlett-Packard, Pyramid and

process, that performance could not have been improved by simply "throwing more hardware at it".

The PRS is moving its on-line membership systems from an ICL mainframe to an open environment. Initially it chose implementation software - the 4GL Uniface, and a relational database from Sybase - and Pyramid hardware as a development system. Only when the physical design was under way, and there was something to benchmark, did it begin to look for a production platform.

Eventually it shortlisted HP and Pyramid from six suppliers to run detailed application simulations on their preferred configurations. Benchmarks designed specifically to test load and transaction rates, PRS, Data Logic, Sybase, and not least HP and Pyramid, were somewhat surprised, says Burford, to find that, despite their impressive paper performance, in reality neither offering could meet PRS's operational requirements.

The upshot was a second benchmark exercise incorporating design changes and a re-implementation of the software. Ultimately PRS settled for a bigger Pyramid engine. But without this complex and admittedly expensive exercise, Burford argues, the PRS system performance could not have been salvaged. Neither vendor could offer a single central processor unit that was up to the application as originally conceived.

The lessons are clear. ● The exercise emphasises the need to quantify systems performance before choosing a production hardware environment and committing to a software implementation. ● Extrapolating from someone else's benchmark results is unsafe.

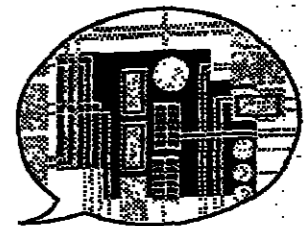
● You cannot rely on fine tuning an application or adding hardware to give you the performance required.

● There is no alternative to including a formal application specific benchmark at an early stage in development plans.

Andrew Hubbard and Xteam have come to the same conclusion: "In the open world your problems are your own. The hardware is a commodity and vendors do not share the risk as they did in proprietary environments so you have to get it right yourself," he says. "A lot of people need advice and have no where to turn."

The business of genome mapping

By John Galloway



GUEST COLUMN

The international human genome mapping project (HGM), possibly the largest single piece of biological research in history, represents the pinnacle of genetic science. But is the project significant for the business community?

Two years ago Margaret Thatcher gave her seal of approval to a request by the Medical Research Council (MRC) for extra money to finance a stand-alone British attack on the human genome. She believed that genes mean money; that mapping the genome was not simply of academic and scientific interest but of commercial importance.

The HGM Resource Centre, at Harrow, played a host recently to British pharmaceutical and biotechnology companies including Roche, Glaxo, SmithKline Beecham, Wellcome and Celtech to discuss the possibilities of commercial exploitation. The centre's aim is to stimulate and serve the British community of "gene mappers" by giving them access to the best technology.

So far the centre has served only the scientific community; its present user base of 700 scientific groups has far exceeded original expectations. Now the aim is to expand the user base into the commercial sector.

The core of the operation is the centre's strategy for producing the genome map. The intention is not to provide detailed data for the whole of the genome by sequencing, which is the American strategy. Rather it is to identify genes and find out where they are within the genome.

The reasons for doing this are good: it is both cheaper and quicker. Only 2 to 3 per cent of the DNA in the genome is genes and even then they do not seem to be evenly distributed. The idea is to be able to provide the minimum information about each gene to allow it to be recognised or seen to be interesting to a particular research group. If you are a user then you agree to put information back into the centre as well as taking it out: your own interesting genes form part of the data bank.

There might be a commercial problem with data banks built up in this way. But those

companies in attendance at the research centre seemed to feel that the availability of a commercially useful gene in the data bank did not matter, unless it could be linked to a particular company with an existing interest.

This was a refreshing attitude, particularly in the light of a row brewing in the US about the patenting of genes. In the past patenting has not been an issue. Scientists concentrated on finding and characterising faulty genes associated with particular inherited diseases, such as cystic fibrosis. An enormous amount of labour was expended on each and the genes satisfied the three cardinal requirements for a patent: novelty, utility and "non-obviousness".

However in June, Craig Venter, a research geneticist at the US National Institutes of Health, filed simultaneous patents for 37 genes which he had characterised in little more than a few months.

Opinion in the US is divided on the propriety of what Venter has done. Some believe it is likely to jeopardise the international genome mapping project.

What is going on in the US is of particular interest in Britain because the approach to genome mapping in the UK is similar to Venter's but without the blanket patenting. The object is to build up a library of human genes that can be used by the research community or by the pharmaceutical or biotech industries.

Industrial interest might well be turned off if the genes have already been patented so early on in the process. How the problem will be resolved remains to be seen. But the possibility that the UK would have to take defensive retaliatory action is a real one.

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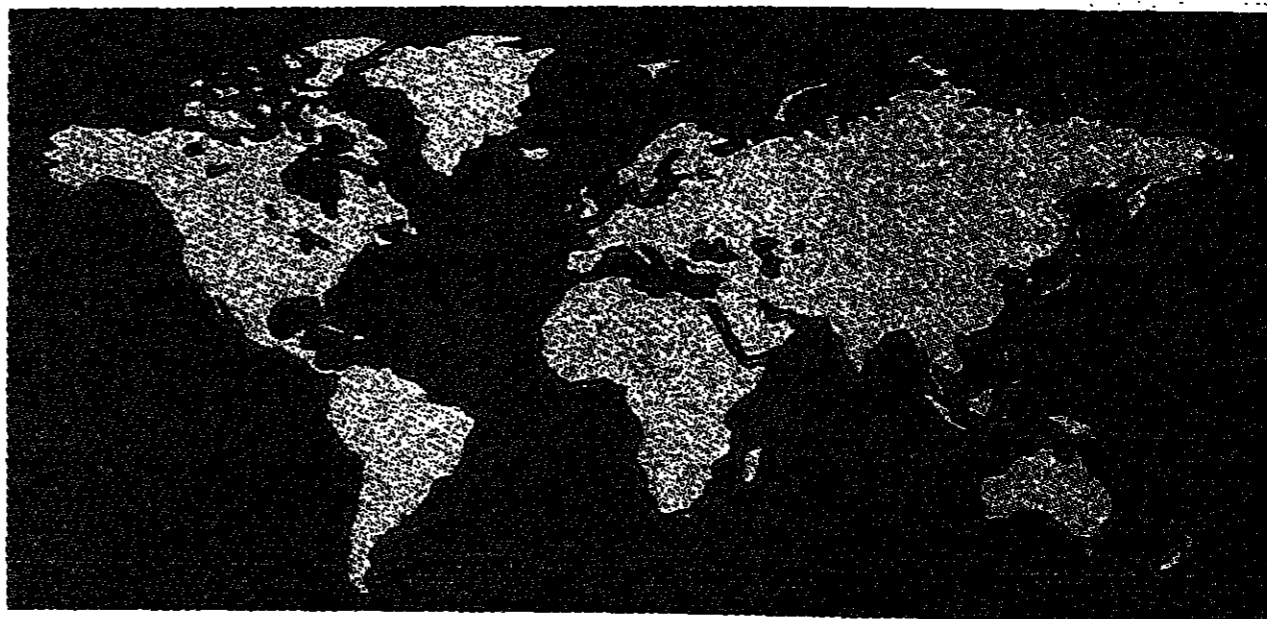
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FT LAW REPORTS

OMAN

Gafta abandonment decision is an award

CARGILL SRL, MILAN v
P KADINPOULOS SA
House of Lords
(Lord Keith of Kinkel, Lord
Roskill, Lord Templeman, Lord
Oliver of Aylmerton and Lord
Goff of Chieveley)
October 23 1991

The Financial Times proposes to publish this survey on November 20th 1991. This survey will look in depth at OMAN and how the country is developing. It will be of particular interest to the 54% of Chief Executives in Europe's largest companies who read the F.T. If you would like to reach this influential audience, call Cliff Crofts on 071-873 3269 or Fax: 071-873 3079

Data source: Chief Executives in Europe 1990

FT SURVEYS

A GAFTA arbitrator's decision declining to exercise his discretion to determine that a claim has not been abandoned, is an "award" and may be the subject of an appeal to Board of Appeal.

The House of Lords so held when dismissing an appeal by Cargill SRL, Milan, buyers of wheat, from a Court of Appeal decision that the Board of Appeal of the Grain and Feed Trade Association (Gafta) had jurisdiction to hear an appeal from an arbitrator's decision not to exercise his discretion to allow a claim by the sellers, P Kadinopoulos SA, to proceed.

LORD GOFF said that Cargill were buyers of a cargo of wheat from Kadinopoulos. The contract was on Gafta Form 64. On arrival of the cargo in Sicily, the buyers rejected it on the ground that its radioactivity levels were unacceptable to the Italian authorities.

The buyers gave notice of default and on September 29 1986 the sellers claimed arbitra-

tion. An arbitrator was appointed.

Paragraph 2.8 of the Arbitration Rules provided that if neither party submitted documentary evidence or submissions to the arbitrator within a year from date of appointment, the claim to arbitration should be deemed to have lapsed unless renewed by further claim before the expiry date.

In its second sentence paragraph 2.8 provided that in the event of failure to renew a claim, it should be deemed to be withdrawn and abandoned unless the arbitrator(s) shall in his/her absolute discretion otherwise determine.

The sellers failed to submit documentary evidence or submissions by September 29 1987. The claim was not renewed by a further claim to arbitration. Accordingly it was deemed to be withdrawn and abandoned unless the arbitrator in his absolute discretion determined otherwise.

On February 13 1988 the arbitrator published what he called his "interim award".

He found that there was no reason to exercise the absolute discretion vested in him, and awarded that the claim was deemed to have "lapsed, been withdrawn and abandoned, as provided for in rule 2.8".

He said that in the event that an appeal against "this award" was not made as provided for in rule 8 of the Arbitration Rules, the award should become final.

The sellers then appealed to a Gafta Board of Appeal invoking rule 8.2, which provided that if a party were dissatisfied with an "arbitration award", a right of appeal lay to the Board of Appeal.

The Board of Appeal, holding that it had jurisdiction, allowed the appeal, deciding in the exercise of its own discretion that the arbitration should proceed. The buyers appealed to the High Court. The appeal was dismissed. The buyers then appealed to the Court of Appeal, which dismissed the appeal. The House granted leave to appeal from that decision.

Rule 2 of the Arbitration Rules was concerned with procedure for claiming arbitration and time limits. Rule 2.7 on which the buyers relied provided that in the event of non-compliance with the preceding provisions of the rule, "claims shall be deemed to be waived and absolutely barred, unless the arbitrator(s) shall in his/her absolute discretion, otherwise determine".

It further provided that if the arbitrator did not exercise his discretion to admit a claim "then the Board of Appeal, on appeal, shall have the power in its absolute discretion, to determine otherwise...". Rule 10.2 provided "an appeal involves a new hearing

at which fresh evidence may be submitted... the Board of Appeal may: (a) vary an award; (b) correct any errors..."

On the present appeal the buyers submitted first that the arbitrator's decision not to exercise his discretion to determine that the claim was not deemed withdrawn and abandoned, was not an arbitration award, so that no right of appeal lay to a board of appeal under rule 8.2.

An arbitrator called upon to exercise his discretion under rule 2.8 (and rule 2.7) had logically to take two steps.

First, he had to decide whether the circumstances were such that he was called upon to exercise his discretion, ie, whether (in the case of rule 2.7) there had been non-compliance with the relevant previous provisions of the rule, or whether (in the case of rule 2.8) there had been failure to submit documentary evidence or submissions in due time and no renewal of the claim.

That had to be established as a basis for the exercise of the discretion. Next, the arbitrator had to decide how he should exercise his discretion.

In the present case the first matter was not in dispute; and the arbitrator decided in the exercise of his discretion not to allow the matter to proceed. He accordingly held that the claim was deemed to have been withdrawn and abandoned.

That decision was properly made the subject of an award.

It conclusively determined that the arbitration was at an end and so finally disposed of the matters which had been submitted to arbitration.

Such a determination was properly the subject matter of an award, carrying with it the usual consequences which flowed from an award - in particular, it rendered the arbitrator *functus officio* and prevented the unsuccessful claimant from re-arbitrating or litigating the identical claim in the future.

The arbitrator's decision was properly made the subject matter of an award. It would be unrealistic to hold otherwise. His determination, although it did not amount to a decision on the merits of the claim, did finally dispose of the matters in dispute because it finally determined that the claim was deemed to have been withdrawn and abandoned and so could no longer be pursued.

The buyers' second submission was that, assuming the decision did constitute an award, there was jurisdiction in the Board of Appeal to hear an appeal under rule 8.2.

Prima facie there was, because rule 8.2 provided that, if a party was dissatisfied with an arbitration award, a right of appeal should lie.

But the buyers submitted there were two reasons why

that was not so.

First, they submitted that rule 2.8 should be read in the light of rule 2.7. They said that whereas under rule 2.7 express provision was made for an appeal to the Board of Appeal, no such provision was to be found in rule 2.8, from which it was to be inferred that there was no right of appeal against an award made under rule 2.8.

That was not accepted. The second sentence of rule 2.7 did not confer a right of appeal. Consistently with rule 8.2, it presupposed a right to appeal. That construction of the second sentence of rule 2.7 was consistent both with the natural meaning of the words, and with rule 8.2.

There was nothing to be inferred from the absence of express recognition, in rule 2.8, of the existence of a right to appeal.

It would be surprising that a right of appeal should be implicitly excluded under rule 2.8, when it was expressly recognised in the directly comparable situation under rule 2.7.

Next, the buyers submitted that the point at issue was, under the Rules, a matter for the discretion of the arbitrator alone, and that the Board of Appeal had no power to substitute its discretion for that of the arbitrator.

That was not accepted. Rule 10.2 was in very wide terms. An appeal involved a new hearing, and the Board of Appeal was empowered to confirm, vary, amend or set aside. Given that in the present case the arbitrator's decision was properly made in the form of an award, that under rule 8.2 a party had a right to appeal if dissatisfied with an award, and that the appeal took the form of a re-hearing, it would be surprising if rule 10.2 did not confer on the Board of Appeal jurisdiction to substitute its own discretion for that of the arbitrator.

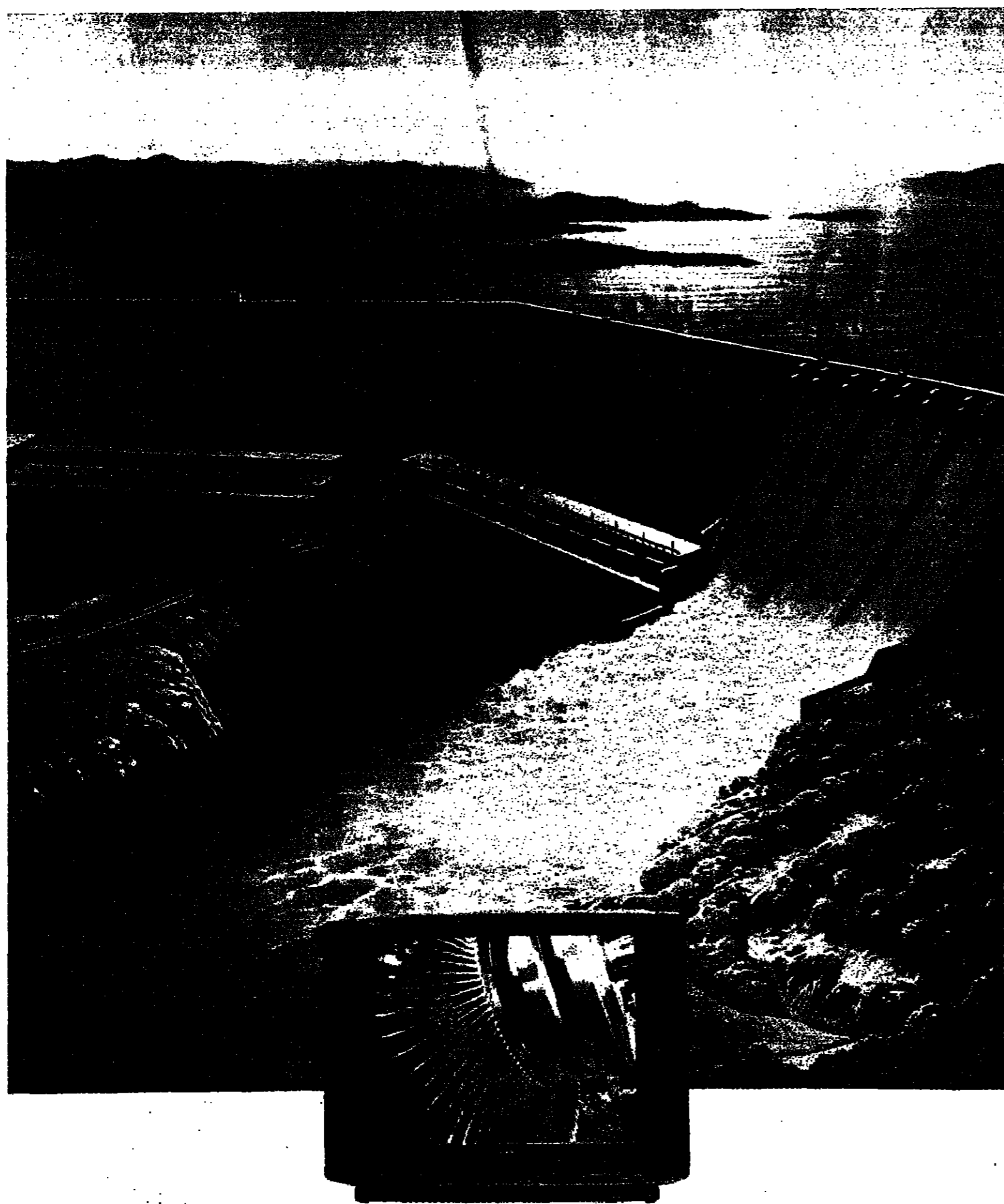
The Board of Appeal's jurisdiction to vary an award was wide enough to embrace that power.

The appeal was dismissed with costs.

Their lordships agreed. For the buyers: *Bernard Rix QC and Christopher C Russell (Solicitor Roche & Tengerle)*. For the sellers: *Mark Havelock-Allen (Barrister Taylor Dickinson)*.

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MANAGEMENT: The Growing Business

When the message is better by design

Charles Batchelor on packaging the right corporate image



Amanda Pelham Burn: believes her company's commitment to good design has paid for itself "over and over again"

Corporate Relocations, a west London agency which helps companies to move their executives around the world, took design seriously from the outset. It spent more than £3,500 - its largest single outlay - on designing its logo and brochures when it started up nearly five years ago and has just spent a further £6,500 on an update.

The company logo shows a pattern of nine squares which appear to tumble together until on the final page of the brochure, they are neatly arranged as a larger block. This is intended to convey the idea that Corporate Relocations is the company to bring order to the confusion that often accompanies relocation. "I don't think customers are consciously aware of this message but it is reinforced by the text," says Paul Izard of Walker Izard, the consultancy which did the work.

One of the new features of the redesign is the addition of a striking saffron yellow to the cooler greens and whites of the previous colour scheme. The idea of the saffron yellow is to impart a warmer feel to the company's presentation, says Amanda Pelham Burn, managing director.

When Corporate Relocations started up in a small rented office just over four years ago, Walker Izard recommended a stark professional style for its brochures to convey the impression to customers that they were dealing with an old-established business. Now that it is more established it can afford to adopt a more innovative style.

It is difficult to quantify the impact of Corporate Relocations' commitment to good design but Pelham Burn believes it has paid for itself "over and over again". The company now has four full-timers and 10 freelance staff in the UK and has licensed its format to associates in five continental European countries.

Pelham Burn had a good reason for calling in a design specialist to create a corporate image for her business. "When you can't sell face to face you really rely on that first impression when the prospective customer pulls something out of an envelope."

But an awareness of the importance of design is unusual among small companies where managers are frequently put off by the cost or a belief that design is an optional extra which has no real effect on the business.

"We get quite a lot of people starting up in business who come to us but when they realise how much it will cost, they go round the corner to one of the quick print shops," says Izard, who estimates a start-up company would need to spend about £3,000 on design consultancy.

The design option of the Enterprise Initiative, a government programme to help small- and medium-sized companies meet the cost of a consultant, has met with only moderate success. Design is one of six options available under the scheme but it has accounted for just 3,315 completed projects, or 10 per cent of those com-

pleted over the past four years. Options such as marketing and quality have proved far more popular.

Colin Mynott, industry director at the Design Council, which seeks to promote design, believes companies have been carried away with the idea that attention to quality will solve all of their problems. But quality does not guarantee that a product or service will include all the features which make it desirable to the customer. That is the role of design, he says.

Managers also overlook the cost benefits which can result from design. A survey* of more than 220 manufacturing companies which undertook product, engineering or graphic design projects under the Enterprise Initiative showed that 80 per cent of projects had made a profit. The average payback period was 15 months

from the product launch. Cost savings in the area of product design (to be covered in a later article) are more easily measurable but the benefits of good design in the areas of corporate image, graphics and packaging are no less real, consultants claim.

Much of the incompletion about design results from the fact that small businesses do not know how to buy in design skills. "The process of appointing a consultant and managing a design project is not well understood," says Vicky Sargent, chief executive of the Design Business Association, which represents 200 consultancies. "A lot of companies think it is just a question of getting in a designer to do a few drawings," says Sargent. "But the client must also contribute by providing a proper brief for the consultant and by providing information."

When M S George, a London-based supplier of household and cleaning products, decided it needed to redesign the packaging of its main product, an air deodoriser called Neutradol, it was called upon to make a major effort.

"Our input amounted to an enormous number of hours," recalls Jane Davis, a director. In 1988, Neutradol had a well-established market position but six new rivals had been launched in the preceding two years. They were starting to steal shelf space and a big supermarket threatened to stop stocking the product unless the packaging was improved.

M S George, which now has sales of more than £3m and a workforce of 10 (all manufacturing is sub-contracted out), called in Siebert Head, a consultancy specialising in packaging design, under the Enterprise Initiative scheme.

Siebert Head's response was to design a red, white and blue pack to convey a clean, fresh image. The pack was made slightly larger than the pot inside (though within consumer protection guidelines) to emphasise that Neutradol was a concentrated, long-lasting product. The pump-action packs were clearly labelled as being "safe, non-aerosol" to meet "green" concerns. "Packaging design is not just a question of pretty pictures," says John Parsons, managing director of Siebert Head. "The pack has to identify and describe the product, convey the brand name and protect what is inside."

Within three months of the relaunch in February 1989, Neutradol achieved a 40 per cent increase in distribution and had been taken up by large store chains such as Asda, Tesco and Gateway. It has since significantly increased its market share.

Companies can avoid the problems associated with using consultants by taking a number of simple steps, the Design Business Association suggests. The customer should:

- Prepare as specific a brief as possible for the designer. As well as asking for the consultant to design a brochure or develop a new range of products it should, where possible, set targets for increasing sales, increasing market share or reducing costs.
- Consult professional organisations or friends who have used design to see which consultancies are experienced in a particular field. Briefing consultants and assessing their proposals takes time so they should not shortlist more than three or four.

- Give the consultant an idea of the size of budget at its disposal and agree on the cost. Design costs are composed of fees, which are time-related, expenses and charges for items such as presentations, mock-ups and the bought-in services of market researchers or engineers. The client should make sure all the consultants quote in the same fashion so their offers are comparable.

- Evaluate the effectiveness of the project. This means monitoring to see whether targets set down in the brief have been achieved.

But even if a company follows these guidelines, design remains a tricky area. Do saffron yellow brochures and chunky boxes really sell a corporate relocation service or tubs of deodoriser? Sober businessmen and women are rightly wary of being swept away by design industry hype though there is a growing number of companies which are convinced that design works.

"Benefits and Costs of Investment in Design," Design Innovation Group, Faculty of Technology, The Open University, Milton Keynes, MK7 6AA. Tel. 0908 653556. £20. A four-page management overview, *Profits by Design*, is also available from the Design Council. Free.

Contact: The Design Council. Tel 071 839 8900. The Design Business Association. Tel. 071 631 1510.

Drawing the line under expenses

By Charles Batchelor

Travel and entertainment expenses form a sufficiently large part of most companies' costs to warrant careful attention, according to the Director's Guide to Travel Management.

The costs of travel and entertainment typically form between 3 and 6 per cent of a company's operating costs and are the third largest area of expenditure after personnel and systems.

Small businesses may feel they have little need for a formal policy because they have few regular travellers, few employees with authority to approve expenses and a company culture which eschews formal written rules.

But small firms can achieve the same percentage savings as large ones while a formal policy can force the company to take a more detailed and strategic view of expenses management, the guide argues. An agreed policy also helps keep costs under control as the business grows.

The guide suggests six stages in making a travel and expenses policy work:

- Selling the idea. The most effective way to gain top management support is to carry out an audit of expense claims and travel and entertainment spending. This will give a good picture of current travel practices, areas of waste or abuse and opportunities for cost savings.

- Managers must however be asked about their priorities. Many companies want to make savings on travel costs but are not willing to make any sacrifices to achieve them. Such indecision can make any travel policy unworkable.

- Writing the policy. Feedback must be gained from frequent travellers, the company's main travel suppliers, secretaries who book travel and managers who authorise travel expenditure. Do not, however, form all these people into a committee since decisions are unlikely. The written policy should explain not only the directives on, for example, the class of hotel but also the procedures involved: how to book the hotel.

- Communicating the policy. If a traveller is not aware that he should use a chosen travel

agent to ensure a cost saving, then he cannot be held responsible if the saving is not achieved. As a result, many of the policy should go to all travellers, their managers, their secretaries and to travel agents. Agents cannot be expected to book executives into a particular class of hotel if they do not have a copy of the policy.

- Monitoring. This can be done when flight tickets are booked, when invoices are received, through management information received from travel agents or corporate card companies or on the submission of expenses. The earlier in the process the monitoring occurs the more likely the policy will be followed and savings made.

- Enforcement. Too many managers are afraid of enforcing guidelines. This allows travellers to argue that the uncertainties of travel make the rules too restrictive.

The policy can overcome this by acknowledging that abnormal circumstances may arise; by setting out what should happen in normal circumstances but by creating mechanisms for approval and explanation when exceptional events occur.

If the policy is ignored, senior managers can ask for further explanation or support for questionable expenses, delay reimbursement, refuse to reimburse unauthorised expenses or remove company payment privileges such as cash advances or charge cards.

- Review. The travel market place may change; purchasing agreements may be revised; and the company's circumstances may alter. New marketing schemes such as frequent flyer programmes may need to be incorporated.

The guide was written by the Institute of Directors (IOD) in collaboration with Amanda Express. However, like others in the IOD series, the guide inevitably raises the question of whether the reader is really receiving disinterested advice on the services provided by the co-sponsor.

Directors Publications Ltd, Mountbatten House, 620 Ebbw Vale, London SW1W 9BB. Tel. 071 730 6060. 78 pages. £9.95.

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ARTS



'Les Potraits': in his smaller paintings and studies, notably of horses, Géricault used paint as it had never been used before

A Romantic, and yet so modern

William Packer considers the work of Géricault, currently at the Grand Palais, Paris

With the bicentennial exhibition of the life's work of Théodore Géricault which has just opened at the Grand Palais in Paris (until January 6), the "Réunion des Musées Nationaux" continues the spectacular sequence of definitive individual studies of the great masters in the history of French painting. What this grand sweep across the centuries - Claude, Watteau or David; Manet, Degas, Gauguin, Seurat - has already made quite clear is that the old art-historical certainties and simplicities are by no means so sure and simple as they once seemed.

Art is not just an history of challenge, innovation, rejection and start again. Great artists do, of course, make original contributions, radical changes, controversial departures, but they may only do so within a larger informing context. If an artist influences his successors, those influenced must equally look back to him - just as he did to his own predecessors. There are historic moments of shift and change, but through all the tensions the seamless cultural fabric still holds.

Géricault was the child of just such a time, caught on the cusp between the Neo-classical and the Romantic, a young man of the Consulate and the Empire, when the Roman idealism of the Revolution was being traduced by the headier, more worldly and personal claims of "la Gloire", of "la Patrie", and of Napoleonic ambition. Born in 1791 and dead of the complications of a riding accident in 1824 at the age of 33, he would seem to be the type of the Romantic artist such as his near contemporaries Byron, Shelley, Keats: brilliant, doomed and dead before his time. Unlike Byron, he did not have the luck to enjoy his fame. He failed three times to win the Prix de Rome, showed little and was as little known. His huge "Raft of the Medusa", too large to be moved from the Louvre for this show, attracted little notice when shown at the Salon of 1819, acquiring its Romantic reputation only by virtue of posthumous celebrity. Régis Michel, one of the show's curators, addresses the problem in his introduction to the exhaustive catalogue: "Géricault is still an artist *maudit*. Undoubtedly the first of the moderns... he remains, for the wider public, an unknown celebrity, the prisoner of his myth."

I am not so sure about that "undoubtedly" for in any period of transition just such a case can be made: Goya, Turner, Constable, Delacroix all come readily to mind. What is true is that one finds oneself casting forward to make the most unexpected comparisons. To think of Manet in the rapid notation of a horse's head and bridle, and from Manet back to Goya, may not be so odd, but of Cézanne *apropos* a

water-colour nude; or of late Derain with a portrait of young Alfred Dedreux; or of Balthus with the extraordinary painting of the child, Louise Verne, with her cat on her lap, does take one a little aback.

Géricault would hardly have been the painter he was without the Beaux Arts tradition of his studies, dominated as it was then by David and his followers, especially Baron Gros. To look back to the old masters was to see them through neo-classical eyes, and if the mature Géricault was never neo-classical, he carried with him much of the idealism and the ambition to work on the grandest, most public scale.

His subjects were not those of high-minded Roman history, but would seek to edify or warn. He looked to the modern world to draw his moral, and what he would see was often troubled, disconcerting, elegiac. As a Romantic, his art is shot through with a noble resignation worthy of any Roman and neo-classicalist. His equestrianism is wounded in the heat of battle, noble in his distress. If this is "la Gloire", so be it, a qualified and infinitely human kind of glory. As for the "Raft of the Medusa", the great canvas is the historic morality, but the studies and sketches are the more questioning, teasing around ideas of what might have happened in that ghastly shipwreck.

It is in these large, grand

compositions, that we see Géricault the Romantic as the child of his age, touched by the neo-classicism that later artists such as Delacroix and Courbet would escape. His paradox is that, even so, he should seem so modern. That modernism has two aspects, one imaginative, one technical. In his drawings and in the smaller paintings and studies, notably of horses, he brings a liveliness to the image that celebrates the physical surface and stuff of the paint, and the act of painting, as never before. It is not that earlier painters did not paint wonderfully, but that to paint for a quality of line and surface alone, irrespective of the image, seems very new and strange.

More important still is his realism. Again he was not the first (Goya, Velázquez, Caravaggio), but to look with so unblinking an eye at things just as they were - a horse's backside, a severed head - is as radical an approach now as it was then. There is something in this, something of an expedient for making art, nor any voyeurism. He is simply looking and recording. The four late portraits that conclude this show, of inmates of the asylum - two men and two old women - are among the greatest portraits ever painted for their psychological intensity, and for all the morbidity of the subject, among the most beautiful.

nothing, and this they all do wonderfully well, especially in Ian McKay's wittily-choreographed fights. The characters, all sharply-drawn stereotypes, say exactly what is required. The local Squid (Andrew Secombe), in love with the new radical schoolmistress (Caroline Long), dispatches her socialist-feminist opinions with "I can get the Fabian dialogue from my footman."

The Police Constable, turgid with thought and superbly played by Geoffrey Freshwater, makes every cliché count. "I may be a simple village copper, sir, but I know an offence when I see one." When he suffers injury in the line of duty, the production shows its sharper edge: "Killed a policeman, eh? I see you're a reformer as well as a robber." Jon Finch is at his pellucid best as the invisible man.

Andrew St George

New Ligeti

ROYAL FESTIVAL HALL

The new György Ligeti is a violin concerto - or rather, three-fifths of one: two more movements are still on the way. On Saturday Saschko Gawriloff delivered the three completed ones with assured brilliance, matched by the Philharmonia under Elgar Howarth. The torso is intriguing; there is no knowing how Ligeti will round it off.

In the opening "Vivace luminoso", the violin saws incessantly away at broken chords like some demented Vivaldi fanatic. Meanwhile, over dark chummings in the orchestra, a slow, melancholy chant goes on and on, Transylvanian enough to recall the plaintive "Pe lo" from Bartók's Romanian Dances. Then a Passacaglia evolves, marked "Lento appassionato", with much use of non-standard tuning ("natural" brass, ocarinas, scordatura strings); at first the violin does nothing but sustain very high notes, *molto vibrato*, but eventually it descends to deliver long, intense phrases.

The brief scherzo, "Fresco fluido", is a glittering waterfall

of chromatics, with a terrific part for a double bank of partly-filled bottles. Obviously a centrepiece, not a conclusion to anything, the sense of it all will no doubt come into clearer focus when the concerto is finished. As a work-in-progress, it took its place satisfyingly enough in the middle of Howarth's splendid programme - which deserved a far larger audience than it actually drew. Satie's "surrealist" *Pavane*, complete with typewriter, siren and revolver, came first, in a performance as affectionately bright and witty as I've heard. After the Concerto there was Ligeti's San Francisco *Polyphony* of 1975 - seething micro-polyphony with a dangerous edge, it is a familiar London Sinfonietta showpiece, but it was fascinating to hear it with a full complement of the Philharmonia's excellent strings. Finally, Howarth engineered a glorious account of the Janáček Sinfonietta, faultlessly paced and executed: pure pleasure, and a marvellous tonic.

David Murray

L'assedio de Calais

THEATRE ROYAL, WEXFORD

In the small harbour town of Wexford in the South-East corner of Ireland the prize catch is a rare fish indeed: an unknown operatic masterpiece. This autumn opera festival prides itself on reviving operas that have been undeservedly neglected and once in a while it comes upon a piece which adds significantly to our knowledge.

The first of the three operas this year was one of those. Donizetti has long been a happy hunting-ground for those with a passion for forgotten operas. But it is invariably the works with a big starring role, intended for some prima donna or other, that have been given the most attention. *L'assedio de Calais*, written in 1836, is different: this is a serious music drama which keeps its eye firmly on the issues.

The plot concerns the siege of Calais in 1347, when Edward III's terms of surrender demanded that six of the citizens be handed over for execution. As one would expect of an early 19th-century opera, the story is seen not from a political viewpoint but from a human one. The important thing is to bring alive the opera's feelings of despair and

sacrifice as movingly as possible and that is what Francesca Zambello has done in a production which lets the opera speak to us with gravity on its own terms.

Fier staging, designed by Alison Clitty and strikingly well-lit by Michael Calf, is stark and simple. The warring sides are distinguished by aggressive colour-coding, red for the English, blue for the French, and the populace is armed with medieval banners and poles; while the contrasting scenes of familial tenderness bring a touching intimacy and calm.

The opening of the second act, in which husband and wife console each other in the besieged city, is the gem of the score: a duet for soprano and mezzo (for Aurelio is a trousers role) of the kind that audiences at bel canto operas always adore. Ann Panagoulas, fresh from her enthralling *Natasha* in San Francisco's *War and Peace*, here proved herself a first-rate Donizetti soprano as Eleanora and Alison Browner was a marvellous Aurelio, warm, lyrical, effortlessly fluent.

Aside from the wish that singers might sing quietly

more often in Wexford's excellent acoustics, the cast was a good one. Victor Ledbetter brought a strong baritone to the role of Eustachio, the mayor of Calais. Kjetil Oimann cut a striking figure as the English King and Elizabeth Woollett made her mark as his wife Isabella, though I was unsure why she should look like a Mohican.

Evelino Pidò led the National Symphony Orchestra in an exciting performance, the music played with Italianate brio, the drama kept on the boil. Wexford chose to omit the ballet, which was a wise decision as we found out the next night, and Donizetti in any case came to prefer the work this way. The extra last solo for Eleanora, however, was included and Miss Panagoulas delivered it with panache and a rousing final high E flat.

It hardly seems right that an opera ignored for a century and a half should leave its audience so elated. Wexford has found a winner and Donizetti's reputation as a composer of serious operas stands measurably enhanced.

Richard Fairman



Alison Browner, left, as Aurelio and Ann Panagoulas, right, as Eleanora

La fanciulla del West

METROPOLITAN OPERA, NEW YORK

La fanciulla del West was the Metropolitan Opera's first world premiere, in 1910. Its second, Humperdinck's *Königskinder*, followed a fortnight later. Two singers were common to both: Marie Matfield as Wowie and the Stabilemaid, and Antonio Pini-Corsi as Happy and the Innkeeper. Destinn sang Minnie, and Caruso sang Dick, but the opera didn't really catch on. The new Met production of *La fanciulla* that opened recently was only the company's 65th performance of the opera in 80 years - or, counting tour performances, its 76th - as opposed to 980 performances of *Bohème*, 717 of *Butterfly*, and 688 of *Tosca* up to 1985 (the figures are higher now) recorded in the Met's published annals.

The new production was conducted by Leonard Slatkin (who has recently recorded the opera), produced by Giancarlo Del Monaco, and designed by Michael Scott - all making Met debuts. The production was straightforward

representational. Nothing wrong with that - except that what was represented, in Act 3, was not what Puccini required. The composer cast a kind of redemptive glow over his last act by prescribing a clearing in the redwood forest - giant trunks soaring into the flies, majestic snowy peaks glistening in the sun of a new dawn. *William Tell* was a subject he considered before settling for the *Girl*, and Rossini's *Tell* ends with a similar scene. Nature and human nature conspire; Edward Greenfield has written eloquently of the Marchallin-like radiance of the miners' sacrifice as they yield their beloved Minnie to the bandit who has won her heart.

But Del Monaco and Scott changed the setting to an abandoned mining town, in a torch-lit gloom through which the singers' faces could not be read. This was a bad idea - diminishing to the opera - that the Met directors should

have vetoed at the planning stage. They should also have raised questions about the first scene - a mining-town saloon bar expensed to Grand Central Station dimensions.

Plácido Domingo - as Dick, as Caruso - gave a wonderful performance. He was ringing of tone, eloquent of utterance. But he took "Ch'ella mi creda," the opera's highpoint, slightly too slowly, impeding its flow. As Rance, the veteran Sherrill Milnes gave a heartfelt and subtle performance. The Minnie, Barbara Daniels, was vocally inadequate - out of tune and strident on the high notes.

Fanciulla lacks big tunes except for "Ch'ella mi creda" but it is one of Puccini's most fascinating scores, influenced by Debussy and by Strauss, and orchestrated with rare inventiveness. Slatkin responded to those. His performance was an odd mixture of orchestral vividness, failure to flow, and wham-bang enthusiasm.

Andrew Porter

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Piano recital by Eliane Rodrigues, with music by Franck, Debussy and Ravel. Thurs: Borodin Quartet plays Shostakovich (6718 345). Tomorrow in Beurs van Berlage: Lev Markiz conducts Nieuw Sinfonietta Amsterdam in music by Stravinsky, Denisov, Mozart and Richard Strauss (6270 456). Muziektheater 20.15 Dutch National Ballet in works by four Dutch choreographers, also tomorrow. Sun: Netherlands Dans Theater (6255 455/credit card bookings 6211 211).

BERLIN

Deutsche Oper 20.00 Stefan Soltesz conducts *Il trovatore*, a cast led by Rosalind Plowright, Leo Nucci and Giorgio Lamberti. Tomorrow and Sat: *Il barbiere di Siviglia*. Thurs: Der fliegende Holländer. Fri and Sun: Don Giovanni (West Berlin 3410 249). Schauspielhaus 20.00 James Levine conducts the Berlin Philharmonic Orchestra in Strauss' *Metamorphosen* and Sibelius' Second Symphony, repeated tomorrow (East Berlin 2272 261).

Philharmonie Kammermusiksaal 20.00 Deutsche Kammerphilharmonie plays music by Brahms, Mozart and Beethoven. Tomorrow: Shura Cherkassky recital (West Berlin 2614 383).

BUDAPEST

This week's events include a concert at 19.30 tonight in the Academy of Music by the Hungarian State Symphony Orchestra conducted by Ken-Ichiro Kobayashi, with flute soloist Erika Sebok. The State Opera repertory includes Respighi's *La fiamma* tonight and Thurs, and Così fan tutte tomorrow. Also tomorrow, the Erkel Theatre has *La Gioconda*, sung in Hungarian. Pre-booking for concerts at the National Philharmonic Booking Office (Vörösmarty tér 1) and for opera at the Central Theatre Booking Office (Andrássy út 18), also at theatre box offices.

GENOA

Teatro Carlo Felice 20.30 *Il trovatore* with Shirley Verrett as Azucena, Sandra Pacetti as Leonora and Kristian Johansson as Manrico. Repeated Nov 6, 8, 10, 13 and 17. Thurs, Fri, Sat, Sun: Béjart Ballet Lausanne in Maurice Béjart's new choreography *Death* in Vienna. Mon: Myung-whun Chung conducts the Orchestra of La Scala, Milan (586328).

LONDON

Royal Opera House 19.30 Northern Ballet Theatre production of *Romeo and Juliet*, directed by Christopher Gable, choreographed by Massimo Moricono and designed by Lez

Brotherhood. Daily till Nov 9 (071-484 5090). Sadler's Wells 19.30 Sankal Juku: Japan Festival production combining opera and dance, based on Butoh culture. Daily till Sat (071-278 8916).

Barbican 19.45 London debut of the Orchestre de la Suisse Romande. Armin Jordan conducts Schubert's Overture in the Italian style, Beethoven's Piano Concerto No 4 with Radu Lupu, and *The Rite of Spring*. (071-638 8891). Royal Festival Hall 19.30 Franz Welser-Möst conducts the London Philharmonic in Shostakovich's Chamber Symphony, Sibelius' Lamminkainen Suite and Mozart's Violin Concerto in A, with Kyung-wha Chung. Tomorrow: Berio conducts Berio (071-928 8800). Cellosum 19.30 Justin Brown conducts *La bohème*, with Gillian Sullivan as Mimì, also Fri. Tomorrow and Sat: Graham Vick's new production of *La nozze di Figaro*. Thurs: The Mikado (071-836 3181).

MADRID

At the Auditorio Nacional de Música tonight and Thurs, the Takacs Quartet plays all six string quartets by Bartók. This week's Spanish National Orchestra Chamber Symphony, Sibelius' programme (Fri, Sat, Sun) is conducted by Aldo Ciccolini, and includes Bruckner's Fourth Symphony and Haydn's D major Cello Concerto, with Alvaro Quintanilla (337 0100).

MILAN

Teatro alla Scala 20.00 John Cranko's ballet *The Taming of the Shrew*, repeated tomorrow. Thurs:

Carla Fracci gala (7200 3744).

MUNICH

Staatsoper 19.00 Bavarian State Ballet in John Cranko's production of *Romeo and Juliet*. Tomorrow: Elektra with Hildegard Behrens and Christa Ludwig. Thurs: Robert Carsen's production of *Lucia di Lammermoor*, with Edita Gruberova and Francisco Araiza. Fri: Marek Janowski conducts Das Rheingold. Sat: *La bohème*. Sun: Die Walküre with James Morris and Hildegard Behrens. The Munich Ring continues with Siegfried on Nov 6 and Götterdämmerung on Nov 10. The next Ring cycle is in February (221316).

Philharmonie 20.00 Sergiu Celibidache conducts the Munich Philharmonic Orchestra in Dvorak's New World Symphony and Tchaikovsky's First Piano Concerto, with Daniel Barenboim (4808 614). Tomorrow: Yehudi Menuhin conducts the Berlin Staatskapelle in a Mozart and Beethoven programme. Thurs: Enoch zu Guttenberg conducts the Munich Bach Collegium in Haydn's Creation (298901).

Herkulessaal der Residenz 20.00 Scharoun Ensemble of the Berlin Philharmonic Orchestra plays wind octets by Hindemith and Schubert (883898). Thurs: Schubert programme with the Munich Symphony Orchestra and Brahms Choir (298901).

Kammerspiele 19.30 Botho Strauss' play *Schluschor* directed by Dieter Dorn, also tomorrow (23721 328).

NEW YORK

Avery Fisher Hall 19.30 Claus Peter Flor conducts the New York

Philharmonic Orchestra in Shostakovich's Symphony and Mozart's Piano Concerto in A major K414, with Rudolf Firkušný. Thurs, Fri and next Tues: Claus Peter Flor conducts music by Mozart, Siegfried Mathias and Mendelssohn (875 5030). Metropolitan Opera 20.00 Plácido Domingo heads the cast in a peasant woman obsessed with the desire for a child. Arena Stage, Kreeger Theater till Nov 24 (488 3300).

● Sotoba Komachi: Japanese legend of a once-beautiful woman and her adoring suitor, performed as a modern Noh play. Written by Yukio Mishima, directed by Yukio Ninagawa. Thurs, Fri and Sat this week only (487 4800).

MUSIC AND DANCE ● From tomorrow till Sat at the Eisenhower Theater, the Washington Ballet presents a double-bill consisting of Bernard Nait's production of *La fille mal gardée* and Choo-San Goh's 1986 work *Unknown Territory* (487 4800).

● Tonight at 19.00, Rafael Frühbeck de Burgos conducts the National Symphony Orchestra at the Kennedy Center Concert Hall, in a programme including Dvorak's New World Symphony and Ginastera's Second Cello Concerto, played by Aurora.

Natolova-Ginastera. Tomorrow and Thurs: National Symphony Orchestra Halloween Pope concert. Fri: song recital by Dmitri Hvorostovsky (487 4600).

JAZZ Blues Alley Jazz Supperclub: Dizzy Gillespie on the trumpet, every evening at 20.00 and 22.00 from tonight till Sun (3240 Prospect St., Georgetown, 337 4141).

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WASHINGTON

THEATRE ● Yerma: Tazewell Thompson directs Lorca's powerful study of a peasant woman obsessed with the desire for a child. Arena Stage, Kreeger Theater till Nov 24 (488 3300).

● Sotoba Komachi: Japanese legend of a once-beautiful woman and her adoring suitor, performed as a modern Noh play. Written by Yukio Mishima, directed by Yukio Ninagawa. Thurs, Fri and Sat this week only (487 4800).

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Tuesday October 29 1991

A better deal for women

BUSINESS IN THE Community deserves congratulation for launching Opportunity 2000, an initiative aimed at increasing women's contribution to UK business. Sixty-one companies - many blue-chip names - have committed themselves to improving the position of women in their organisations by the end of the century.

The central premise of the campaign is that UK employers are failing to exploit fully the abilities of women in their workforce. Competitive advantage for businesses lies increasingly in using the talents and skills of their workforce: equal opportunities policies can assist by ensuring that women develop their full potential. And espousing such policies may assist in reducing labour turnover: it is often cheaper to train and develop employees than to recruit new staff.

Demographic changes have already alerted companies to the growing importance of women in the workforce. The number of school-leavers continues to fall, and by 1995 will reach the lowest figure in over 30 years. Employers who have traditionally relied on new entrants to the labour market must tap new sources, and women who have left employment to start a family are a target. Sainsbury and the Civil Service are among organisations which have introduced flexible working hours to attract mothers with school-age children. Banks have extended maternity leave to seven years or more to lure back staff. The health service has joined Midland Bank in opening shared nurseries.

Cultural change

But the recession has encouraged some employers to slip back into old ways. Opportunity 2000 should reinforce the process of cultural change, particularly with the prime minister's backing. The companies involved will pool

ideas on good practice and share research and consultancy. Some will set targets for the number of women they wish to see in senior posts. Others reject targets with specific numbers, citing the mixed US experience of quotas and positive discrimination. But policies with measurable outcomes on which progress is regularly reported will encourage women to expect more - and hold managers to account when progress is too slow.

Career obstacle

However, no attempt to increase women's contribution to business can overlook the obstacles which motherhood throws in front of a career. Some of these can be dealt with by employers: for example, schemes can keep women on maternity leave in touch with developments at work. But employers can do less about the choice between active motherhood and a career which is forced on many women by the lack of suitable childcare provision designed to allow both to be combined. Local authority nursery schools, social services nurseries, voluntary playgroups, child-minders and nannies, vary considerably in availability, cost and quality. Work-place nurseries have been encouraged by tax relief, but flexible working hours to attract mothers with school-age children. Banks have extended maternity leave to seven years or more to lure back staff. The health service has joined Midland Bank in opening shared nurseries.

While the largest employers may be able to provide such options, they are beyond the means or ability of most companies. The task of deciding how far childcare can sensibly be extended obviously includes a government whose record to date is a lot less impressive than Mr Major's fine words. A public debate, with realistic costings, is now needed about whether and how this can be provided.

Mr Yeltsin acts

PRESIDENT Boris Yeltsin yesterday curbed the international community to assist his economic reforms. As he spoke, two other meetings were going on within a mile of him. Senior officials of the Group of Seven countries were thrashing out a position between the 12 remaining Soviet republics on the repayment of Soviet debt; and Mr Mikhail Gorbachev, the Soviet president, was meeting the president of Cyprus.

Centre stage

No question who commanded centre stage. President Yeltsin has the power - if he has the will - to determine how and when reform will be instituted, both in Russia and, because of Russia's size, throughout the union. Mr Gorbachev has the power to meet the president of Cyprus. The 67 emissaries, faced with a flustered group of republican leaders, are learning at first

hand just how little power the centre has left.

Aid promises

Thus aid, from now on, will not go to the Soviet Union: nor is there any longer profit in promising aid in return for a fully co-ordinated economic programme. The process of disintegration - or, to put it another way, nation-building - has gone too far.

From now on, assistance can only be given through the republics, although in assessing bids, the west will want to consider each bidder's commitment to a continued, effective mechanism of financial exchange between the republics, as well as their credentials as democrats and market reformers. This will entail a vast deal of diplomatic and political effort: but there is nothing the international community can do, via either the carrot or the stick, to keep the Soviet Union together.

UK aerospace

BRITAIN'S aerospace industry is in danger of getting into a mess which the government should be keen to avoid.

The industry's mixed fortunes were amply demonstrated yesterday by the coincidence of Lucas Industries' £1.7bn order to supply aircraft engine parts to General Motors and the snub which investors delivered to British Aerospace's £432m rights issue.

Along with chemicals and pharmaceuticals, aerospace is one of a few manufacturing sectors where Britain can field a full team. The UK's capability encompasses BAe's military and civil airframes, Rolls-Royce's engines and important suppliers such as GEC, Smiths Industries and Dowty.

BAe's position is not typical of the industry. Yet all aerospace companies face similar pressures, which stem in part from the depth of the recession, but more from declining military orders and the government's insistence that more development work should be privately funded.

Also, the world civil aerospace industry is still waiting to break into an industry largely dominated by the Americans and the German industry has been reorganised around Daimler-Benz, with the apparent aim of becoming one of the largest in Europe. France, meanwhile, remains a generous subsidiser of its industry. To succeed, companies need the clout to open up overseas markets, the financial strength to fund development

projects and the technical expertise to innovate. Effective international alliances are an indispensable part of the game.

There is no case for hefty state subsidies since most of the answers lie in the companies' hands. For instance, Smiths Industries last week delivered tidy results, which testify to its firm management of a few activities. BAe is in a mess largely because it lacks these qualities. It is worth recalling that BAe, like Rolls-Royce, was until relatively recently in the public sector. BAe in particular is still a young company learning commercial management disciplines.

Yet the government cannot avoid some responsibility for the industry's fate. It is one of the industry's largest customers; it helps to fund its research work; it represents the industry's interests in trade negotiations and through its regulation of the UK airline sector strongly influences the environment in which the industry works. Governments also determine the military strategies and alliances which determine the demand for weapons.

The Department of Trade and Industry, with assistance from the Ministry of Defence, would be performing a valuable service by drawing together these strands, helping the manufacturers at least to understand as clearly as possible the planning framework within which they must work. Such a move might even do the government some political good.

This is one of the most critical moments in the history of the country. Boris Yeltsin, President of Russia, October 28 1991.

We have been told of many critical moments in the history of the Soviet Union, or Russia, in the past few years; but it would be wrong to react cynically to this latest declaration. His speech yesterday telling Russians to prepare for tough and painful economic reforms really is one of the most critical, for the revolution which was fully unleashed by the failure of the August putsch is now running strongly, and the decisions made by the decisive power - the Russian republic - are crucial to its future course.

In seeking to evaluate how far Mr Boris Yeltsin's 65-minute speech to the Russian parliament yesterday, in which he pledged to liberalise prices and speed up privatisation and land reform, will alter the course of history, we should pose three questions:

● Will he deliver on what he has said?

● Will the reforms and actions he adumbrates be followed through at a union, or only a Russian, level?

● And if he does deliver, and does deliver alone, can the Russian government stand the strain?

Mr Yeltsin's move comes very late. The momentum which the August 19-21 putsch gave to the subsequently victorious democratic forces - forces which included those who had most overtly fought for democratic and pro-market reform, and those who stood most to benefit from both - has been all but lost. Radical leaders, including Mr Yeltsin, have over the past two months used the coup to fuel rhetoric about the need for reform, not to support it in reality. In his speech, Mr Yeltsin excused delay by saying time had been needed to prepare a programme of action - as if the shelves were not groaning with radical programmes, and as if the moves to be taken to puncture gathering hyperinflation, control budget deficits, free prices and end industrial monopolies were not already well enough known.

In the course of the past few months, he has seen his popularity, which had been bolstered by his courage and his resolution during the coup, slide away; he has seen a series of futile and enervating arguments destroy any coherence his cabinet might once have had; and he has seen resistance to Russian central government's writ gather across his vast country. The important and industrially powerful autonomous republic of Tatarstan has proclaimed independence, as has the republic of Chechen Ingushetia, where at the weekend an unofficial election brought out a reported 90 per cent of the population to vote in a president - General Dzharkh Dudaev - pledged to confront Russian authority.

The independent trade unions, relatively quiescent before, have in the past few weeks staged demonstrations; there have been scattered, so far unimportant, strikes. The slogan has been "free prices matched by free wages". In fact, President Yeltsin promised just that yesterday - but if he is to control inflation as he means to, the rise in wages must lag behind prices and the

The Russian leader is going it alone in reform, writes John Lloyd

Yeltsin's bitter pill



unions will have to respond to the desperation of their members by taking harsher action than they presently have.

Conditions everywhere are getting worse rapidly - leading many western observers to conclude that an economic collapse is now all but inevitable. Mr George Soros, the Hungarian-American financier who has established a foundation to assist reform in Moscow told a conference of western lawyers last week that little the west could now do would avoid economic collapse; and Mr Robert Strauss, the US ambassador, is advising his government of the possibility of spontaneous revolt on the streets this winter. To sit tight is not really an option.

Thus if Mr Yeltsin does not act now, he will - as he said with typical melodrama yesterday - "condemn ourselves to beggary and our centuries-old state to disaster". Everything is a risk; and he has chosen, it seems, a Russian version of shock therapy as the most acceptable one. By taking personal control of the government he has played the last real ace the Russian government has: the remaining authority and power of his office and his personality. The last assumption, then, is that he means to do, soon, what he said yesterday. But he will probably have to do it alone. The process of dis-

integration in the Soviet Union is now far advanced: in particular, the large and relatively advanced republic of the Ukraine has now committed itself, probably irrevocably, to full-blooded independence.

Mr Yeltsin challenged the republics to come with him at once, or go their own ways. Coming with him meant dropping any immediate plans for separate currencies, agreeing to an inter-republican bank with full reserve bank powers throughout the union and assenting to a presence on that bank's board commensurate with their resources - which would mean the domination of Russia. Further, it meant eschewing the creation of separate armies in favour of an all-union force.

These conditions, essential as the most minimal base for a functioning union, are unacceptable to the Ukraine, and to many of the other 12 remaining union republics - many of which consider themselves to be formally independent. Though all have taken part in the negotiations on an economic agreement conducted by Mr Grigory Yavlinsky, the economic co-ordinator of the Committee for the Management of the National Economy, and though eight have signed such an agreement, all are seeking to save what they can of their own produce and few have signed effective inter-enter-

prise agreements which could see a flow of goods and produce across the republican borders.

Mr Yeltsin knows this, and hence he laid out a series of moves he would make if current trends continue. These have been urged upon him by a group of economists, headed by Mr Egor Gaidar, a prominent radical, to take a prominent role in the new government. He has long believed that Mr Yavlinsky's efforts to get all-union reform are doomed; and that Russia must now cut itself loose and set the pace, which others might follow.

Thus Russia will, in effect, take over the functions of the present USSR State Bank (Gosbank) and print its own money: indeed, the Russian president said, Russia was ready to become the "legal successor to the Soviet Union". It would, if other republics continued to set up separate military forces, also create its own army. The key element, he said, was speed; but it now seems inevitable that the union will be sacrificed. Said Mr Nikolai Travkin, chairman of the Russian Democratic party: "I think, in Yeltsin's speech, the union was given up for lost."

There can, finally, be no sensible answer to the question of how much hard pounding the Russian authorities can take. Again and again, Mr Yeltsin begged for understanding and support from the people, holding out the prospect of a clear road and ultimate improvement after some pain, uncertainty and decline in living standards. The situation, he said, would be visibly getting better by next autumn.

He will have support from the democrats. Mr Yuri Afanasyev, a leader of the Democratic Russia bloc, said that "the general direction of this report deserves respect, and our movement will support it." Mr Nikolai Bockarov, an influential Russian deputy and former chairman of the Russian Economic Council, said he "much appreciated" [Yeltsin's] determination to set up a new structure of power. In becoming head of the government as well as president, Mr Yeltsin raised fears in some that he was straying towards authoritarianism, but there is enough panic in high circles to allow him considerable latitude.

There is some similarity here with the experience of the Poles, for nearly two years the objects of a shock therapy; in Russia, as in Poland, the first popular response has not been revolt but apathy and disillusion towards the whole political process. Certainly for the moment, most energy goes into finding, preserving and storing food in a society in which all bemoan the fact that each is out for himself. The union has few supporters, and a coup in its name is likely to be even less successful than that in August; no one yet challenges Mr Yeltsin in Russia.

But, as he said yesterday, the announcement "this was the hardest decision of my life" hard for him because he knew how hard it will make life for ordinary Russians. The constituent parts of what was the Soviet Union, now thrown back upon their own resources, are about to discover how painful it is to build nations from a political, economic and moral wasteland.

Chevalier Rhodes

■ Citicorp may be having its troubles but vice-chairman William Rhodes goes on winning plaudits. He was instituted as a chevalier of the French Legion d'Honneur in Paris yesterday. The reason: his work over the years with the French government in helping to manage the international debt crisis.

The man presenting Rhodes with the going was Jacques de Larosière, governor of the Bank of France. De Larosière was head of the International Monetary Fund when the debt crisis broke in August 1982 with Mexico's announcement that it could no longer meet its obligations.

De Larosière and Rhodes - whose bank had the largest exposure to Latin America - were two central figures in staving off a predicted worldwide banking collapse. A third, Paul Volcker, former chairman of the US Federal Reserve, was also in Paris at the ceremony.

Looking on two was newspaper magnate Rupert Murdoch, another with reason to be indebted to Rhodes. Rhodes helped guide through the News Corporation debt restructuring, completed earlier this year, that ensured the Murdoch company's survival.

While not wishing to tarnish the gift on Rhodes's French gingerbread, Observer should point out that the chevalier class of the Legion d'Honneur is the lowest of the order's five ranks, with 132,000 present members. The more exclusive ranks, in ascending order, are officer, commandeur, grand officer, and grand-croix.

Old rules

■ Thames Television was one of the few companies at yesterday's launch of the Opportunity 2000 initiative, which was not crowing about its progress

OBSERVER

in employing and promoting women staff.

Thames's entry in a documentary about the Gold Fields was set by over 60 companies participating in the project, was woefully short and had clearly been backed down from an earlier, more ambitious version. It simply stated: "Having been outbid in the recent Channel 3 licence awards, from 1993 onwards Thames will operate as the leading independent producer in the UK."

Nothing there about even limited prospects for women. Said chief executive Richard Dunn gloomily: "With over 1,000 jobs out of 1,400 going, equal opportunities can't exactly be a priority."

So it seems that when the going gets rough, the game will be played by the old rules. Last one out switch off the light.

Cash flow

■ Perhaps the big clearing banks are finding the recession even more of a struggle than most of us thought. Yesterday morning the Lloyds branch in London's Cannon Street, in the heart of the City, had no cash available at all. One FT colleague was only able to draw money out because the next person in the queue wanted to pay some in.

Night gap

■ Labour's deputy leader Roy Hattersley appears to be so confident of his party's chances in the next general election that he can afford to snub the 10,000 members of Britain's top mandarin union, the Association of First Division Civil Servants.

He has pulled out of a lecture he was due to give the association at 6.30 tonight on "The Future of the Civil Service". His excuse? A Sam



"I donate most of my pay to charity"

engagement tomorrow at the Hemsforth by-election. Sir Humphrey Appleby might reasonably point out that Hattersley could deliver the lecture and still be in Hemsforth in time for tonight's Horlicks. Hattersley had better watch his back if he finds himself a minister in a future Government: it is the association's members who will have to tend to his every move. Bryan Gould has manfully stepped into the gap.

Happy birthday

■ The sight of Harry Oppenheimer, the grand old man of South African mining, spending part of his 83rd birthday addressing SG Warburg's International Mining Conference yesterday is the surest sign yet that Britain's premier merchant bank and the giant Anglo American Corporation are back on the best of terms. It has not always been the case. There was a brief period during the battle for Consolidated Gold Fields when relations were definitely strained.

Warburg's Rowe and Pitman, which had launched the infamous dawn raid on Gold Fields in 1980, has always been in the Anglo camp. However, Warburg's corporate finance arm was a valued adviser to Gold Fields. When Anglo's chief executive bid for Gold Fields it was a real test of loyalties and according to journalist Bill Jameson's account of the battle, Goldstrike, Warburg's Simon Garmoyne, an old friend of Gold Fields' chairman Rudolph Agnew, came near to resigning.

However, Warburg's chairman Sir David Scholey saved the day by insisting that his firm would represent neither side. For once, old-fashioned values paid off. Garmoyne, now trading under the title Lord Cairns, has been promoted to group chief executive, Anglo American remains a valued client, and Gold Fields is but a memory.

Crossed lines

■ Further revelations from the biography of Brazil's former economy minister who decided to tell all. According to Zelia Cardoso who resigned in May, her central bank governor Ibrahim Figueira was nominated by accident.

Apparently she asked her secretary to ring Ibrahim Elias, a colleague at Sao Paulo university, to offer him the post and the secretary misheard the name. When Elias, a Turkish financial wizard, was put on the line Cardoso decided he might be good at the job.

Ironically Elias went on to become the most praised member of the economic team though he resigned within the rest in May.

Short-termism

■ A recent advertisement in The Economist promises: "Now You Can Read the Best Business Books of 1992 - in Just 15 Minutes Each." Top of the list: a book called The Art of the Long View.

Power to the consumer

Andrew Hill and Deborah Hargreaves on EC energy policy

Mr Antonio Cardoso e Cunha will today put on kid gloves for a meeting of EC energy ministers at which he intends to nudge forward one of the most controversial measures of his four-year term as European energy commissioner.

He will be seeking nothing less than the eventual break-up of national gas and electricity monopolies. "Third-party access" Eurojargon for this process of energy market liberalisation, does not grab public attention like some other issues to be debated in Luxembourg today, such as the proposed energy tax to curb carbon dioxide emissions. But it is one of the fundamental building blocks of the whole single market. As one Brussels energy official asks, "How can you claim to have a genuine internal market if companies in one country don't have access to energy on the same terms as companies in another?"

Not surprisingly, the idea of breaking down the barriers in energy supplies faces heavy opposition - both from EC governments and from the power industry itself. Many established gas and electricity suppliers in Europe argue that the break-up of national energy monopolies would deprive companies of income they need to invest in infrastructure, and that this in turn would create supply shortages. Eurogas, the EC industry lobby group, calls third party access "a risky experiment endangering security of supply and environmental protection".

Others argue that the benefits of greater competition would be unevenly spread; that home-owners who are unlikely to have a choice of supplier could end up paying for any increased investment that is lavished on industrial consumers. "The Commission says opening the market will bring prices down. Well, I'm not sure it will, and, in any case, only the major users will benefit. Small customers could see prices rising," said Mrs Pim Tencate at Samenwerkende Elektriciteits-Produktbedrijven, the Dutch electricity company.

Some commissioners - including Sir Leon Brittan, responsible for competition - had believed that the EC did not need to worry about such opposition. They argued that the Commission already had the legal ammunition to dismantle national energy monopolies in the form of Article 90 of the Treaty of Rome, which enables Brussels to act to promote competition without having to win the approval of member states. But the Maastricht summit in December has made commissioners concerned about offending member states, and Sir Leon's favoured approach has for the moment been put to one side.

For once, the Commission does have an ally in Britain on

this issue. The UK is in favour of energy liberalisation, having already introduced a measure of third party access to energy networks through privatisation. The British electricity industry - and to a limited extent British Gas - has also learned to love the idea of competition. "We challenged open access here with all the same arguments as the continental producers," said Mr John Baker, chairman of National Power, one of the UK's privatised electricity generators, "but we were proved wrong."

The UK has the tentative backing of Ireland and Portugal, but ranged against them are Germany, France, the Netherlands and Spain, which broadly favour retaining the status quo. In the prevailing atmosphere, the Commission has now agreed that Mr Cardoso e Cunha's approach to the issue should be softened somewhat. Instead of tabling legislation, the commissioner will today outline a three-phase process for opening up the internal energy market.

● The first phase is in place: against industry protests, ministers last year approved two directives allowing utilities to transport gas and electricity across borders in the EC.

● In the second phase, which enthusiasts would still like to see take effect at the beginning of 1993, gas and electricity production monopolies would be abolished, allowing anyone to construct a transmission grid.

● Phase three would consist of open access to the system - in principle allowing consumers to buy their energy from any supplier in the Community, subject only to available capacity.

No all energy suppliers in the Community are opposed to the Commission's ideas. Competitors to traditional public utilities such as Germany's Wintershall, a subsidiary of the BASF chemicals group that already supplies gas to industrial consumers, are eager to boost their role in the EC energy market. Wintershall rejects producers' arguments about the potential threat to gas supply posed by Commission plans as a way of trying to protect the status quo.

Ultimately, the fate of Mr Cardoso e Cunha's plans will depend, like much else, on the Maastricht summit; advocates of energy liberalisation argue that it would be difficult for nations which had just committed themselves to a common foreign policy or currency to cavil at the prospect of co-operation in the energy field.

In the meantime, the energy commissioner is waiting to present his formal proposals until he has received another report from a group of national experts. If opponents continue to object, the Commission can use the threat of legal action on competition grounds as a weapon of last resort.



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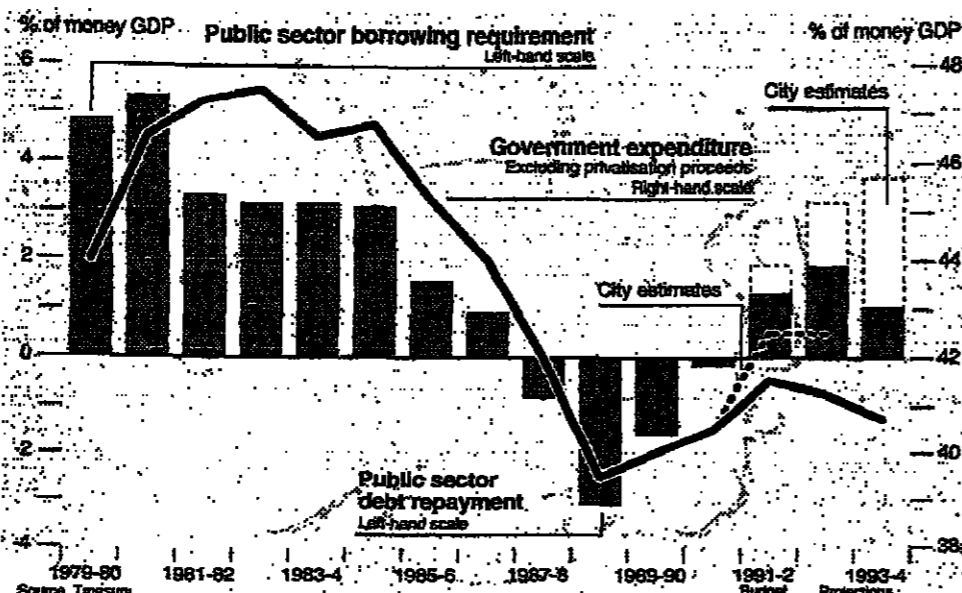
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Limited room for manoeuvre

Peter Marsh on the difficult choices facing the UK chancellor over public spending next year



ing touches to their plans. Messrs Lamont and Mellor have had to wrestle with the following issues:

● **Unavoidable expenditure.** The chancellor has discretion over only about 15 per cent of the £252bn total public spending already pencilled in by the Treasury for 1992-93. (This sum includes self-financed spending by local authorities and debt interest, and is therefore bigger than the Treasury's £221bn planning target - which omits these items.)

The rest of the spending comprises long-term commitments in areas such as social security, grants to local authorities, European Community payments and defence. Mr Lamont's hands are especially tied in the area of social security, which accounted for 27 per cent of spending last year. About half of social security spending goes to pensioners, with most of the rest represented by unemployment benefits and other payments linked to economic hardship.

Of the extra £7bn or so that Mr Lamont is thought likely to add to public spending next year (not counting privatisation proceeds, which the Treasury treats as "negative expenditure" or savings) some £3bn may go on social security.

● **Discretionary increases.** Both Mr Lamont and Mr Mellor have come under pressure from cabinet colleagues for increases in areas such as health and education - each of which accounts for roughly one-sixth of the total spending bill. An extra £11bn-£12bn announced in the autumn statement for each of these areas - perhaps to pay for renovations to ageing hospitals or schools - would look good in the newspaper headlines.

● **Government income.** The recession will have a delayed effect on government revenues, mainly by reducing profits and hence corporation tax. This is paid in arrears by companies and will be low in 1992 and 1993. With income tax also likely to be low, Mr Michael Saunders, an economist at Salomon Brothers in London, reckons total government revenues in 1992-93 and 1993-94 will be £235bn and £255bn respectively, in both cases £5bn lower than the Treasury's forecasts made in the March Budget.

● **The switch to deficits.** For the first time in five years, the government's income this year (1991-92) will be less than its outgoings, resulting in a deficit estimated by private-sector economists at about £11bn. It will have to borrow this sum

from domestic and international lenders on the world bond markets, mainly by issuing UK government securities or gilts.

In 1992-93 the borrowing requirement could be about £20bn, and £25bn the year after that, representing the biggest five-year swing in the government's fiscal position since the early 1970s.

● **Likely economic growth.** The speed of the upturn is a vital link in the calculations about borrowing. Recent economic indicators have painted a picture of an extremely weak recovery, and support a relatively pessimistic view. City estimates of a £20bn deficit in 1992-93 assume the economy will expand by some 2 per cent in 1992, after a contraction of 2 per cent this year. However, some believe growth may be only 1 per cent, which would push the deficit up to an estimated £24bn. Professor Patrick Minford of Liverpool University, a fierce critic of the Treasury's economic strategy, reckons growth will be nearer zero.

● **Local authorities.** Between 1989-90 and this year, central government grants to local authorities have risen by a third, from £38bn to £52bn, in part to keep down poll tax

hills. With an eye on keeping down individuals' poll tax payments around the time of next year's election, Mr Lamont may want to add a further £1bn or so to the grants for 1992-93. This could happen in the next few months rather than in the autumn statement.

● **Capital investment.** This accounts for about 10 per cent of the total bill, and covers such items as roads, railways, buildings and other public works. Some believe that whichever government is in power in the 1990s may need to spend more in this area, because of the need to replace or improve dilapidated infrastructure, many parts of which date from Victorian times.

While the chancellor has plenty of worries, in one area - the deficits - he appears more relaxed than many in the financial markets. Mr Lamont has argued that they are essentially cyclical, representing the increased spending and lower income caused by the recession. If he is right, the position will improve as the economy picks up later in the 1990s.

The projected deficit for 1993-94 is likely to amount only to about 4 per cent of GDP - compared with about 8 per cent in the early 1970s - indicating that the Treasury should find little difficulty covering its extra outgoings by borrowing.

Because of large debt repayments during the 1980s, when the UK's government finances were in surplus, Britain's net debt to national income position looks more favourable than that for many other European countries. The ratio stands at 34 per cent for Britain, compared with more than 40 per cent for France and Germany and more than 100 per cent for Italy, Ireland and Belgium. This means the "risk rating" bond specialists give to Britain is relatively low.

On the other hand, the deficits expected over the next few years will be unwelcome to Mr Lamont in so far as they make it more difficult for the government to cut taxes if re-elected.

Whatever the chancellor promises in his autumn statement, his words are bound to be picked apart with particular thoroughness by the opposition and not just for the usual party political reasons.

Labour promises an extra £20bn or so a year in public spending if it gains power (partly by raising tax rates and partly through increased revenues from higher economic growth). Any negative reaction from the markets to higher government spending under the Tories would be a grim foretaste of what might be in store for Labour if Mr Neil Kinnock wins the election.

Joe Rogaly Ace in the hole



When British ministers hint that there may be no agreement on political union at Maastricht they are playing poker. I hope they are remembering the cardinal rule of the game, a rule I learned at the price of a monstrous quantity of dollars over many unforgettable sessions of five-card stud.

The rule is simple. Do not be exposed as a bluffer. If you stand pat or keep upping the ante on the basis that your hole card is the ace of spades and they call and it is really a two of nothing you are finished in that game, possibly forever.

Britain's supposed ace at the intergovernmental conferences on political, economic and monetary union at Maastricht is that if agreement cannot be reached on London's terms, London will exercise its veto. It is not difficult to suggest that this ace really does exist.

Consider. Say parliament voted against the monetary agreement. The other 11 members of the European Community could then establish a single currency on their own. Should London fear being thus isolated? Not much. For a start it is not clear that the 11 would make good their proposed "solemn commitment" to monetary union. The French and German positions remain fundamentally different. Nobody can afford the Italians. At worst the hard core of the present DM zone - namely France, Germany, the Netherlands, Belgium and Luxembourg - might turn their present *de facto* currency union into a *de jure* single currency.

Britain would simply carry on within the exchange rate mechanism as now. Anyway, this establishment of a two-speed Europe might not happen very quickly. And here comes the clincher: Germany has said repeatedly that without progress towards a political union it is not interested in the agreement on monetary union. The political proposals require treaty amendments that would not be valid without Britain's assent. Ergo, the threat to withhold that assent must be taken seriously by

the 11. It is a genuine ace.

Some British ministers take this argument further. Say there is a breakdown at Maastricht over an issue on which British opinion would support the government. This could be defence (will they tell us where to send our troops?), or foreign policy (where were the Belgians during the Gulf war?), or an unnecessarily centralising role for the European Commission (will they tell us what taxis to use, what metal our household boilers should be made of, where to put our roads?).

Behind all such issues lies a conflict between the federal vision of a Europe whose first allegiance is to its own constitution and the nationalists' vision of a congeries of states freely making and remaking treaties together. The former is a German vision, the latter French. Perhaps the difference could be exposed.

In those circumstances Mr John Major could go to the country on the ground that he had shown his European credentials but that no reasonable government could be expected to sign what was on

so wish. Only the awkward squad of Conservative has-beens, led by an increasingly irascible Mr Norman Tebbit, could object to that - and even he talks as if his threat to vote against the government is a bluff. As for the queen has-been, one view is that an open shoot-out with Mrs Margaret Thatcher could do Mr Major as much good with ordinary voters as the blasting of Labour militants has done for Mr Neil Kinnock.

The political union talks are another matter. Here the foreign secretary, Mr Douglas Hurd, has been talking as if the other 11 members of the EC have not shown sufficient respect for the power of the British ace. My friends in the European Parliament put it another way. There are four aces in the pack. Another player - Germany, perhaps - may hold more than one. If the British are wholly unreasonable on matters such as the powers of the European Parliament or majority voting on defence and foreign policy, they could be outsmarted. For the Germans are sophisticated analysts of the British political scene.

If the cause of break-up is the social charter, Labour will be able to say that the Tories are denying the natural rights of employees. If the voting is 11-1 on all political union issues we would be back to an isolated Britain and a further cloud over Tory prospects at the next election. The foreign exchange markets would react adversely, interest rates would rise, and the Conservatives would fall.

We can therefore believe the government when it says it wants to sign both agreements if at all possible. The best position from which to fight an election would be one in which the Conservative party looked united. This now looks almost achievable, save for the unpredictability of a few prominent diehards. The prime minister could in any event be portrayed as the man who triumphed for Britain in the European negotiations. Few people would read and fewer understand the small print, which would marginally increase the remit of Brussels and the responsibilities of the European Parliament. But at least Mr Major would not have lost his shirt. It is a dangerous game, poker.

Only the awkward squad of Tory has-beens could object

offer. He is no Margaret Thatcher. He has demonstrated his willingness to be a good European and play the game the continental way. But, he could say, there were just these final points which could not be accepted. More time was needed. A shrug of the shoulders, a promise to keep trying under the Portuguese presidency during the first half of 1992, and the prime minister would emerge as a nationalist hero.

If you swallow the argument so far, you may see merit in the rest of it. It runs as follows: those who want both agreements signed at Maastricht know that they must draft them so as to win British acceptance, or risk a veto. Yesterday's draft agreement on economic and monetary union supports this view. It does not bind Britain into a single currency, but leaves it the option of joining should it

LETTERS

Wrong pursuit

From Mr Rupert Lycett Green.
Sir, Nigel Lawson was rightly castigated for his exchange rate pursuit of the D-Mark. This required that UK interest rates be too low for good management of the domestic economy. The ERM straitjacket now demands that our interest rates again follow Germany's too closely. That they are too high for the good of our economy is becoming obvious. Again the economy is being sacrificed on the altar of European unity. Our main political parties are apparently happy with the situation. Where do we go from here?
Rupert Lycett Green,
managing director,
Blackland Oil,
4 St James's Place, London SW1

Government backing for tenders process flawed

From Mr Michael Manser.
Sir, The government is pressing for competitive tendering for services as well as commodities; but services include intellectual property not easily evaluated by fee bidding. The architect's fee, for instance, in a large construction project, is about 3 per cent of the total capital outlay. The success of the project, commercially, in use and aesthetically is dependent upon the quality of his initial concept; if this is bad, the building will be flawed and not easily retrieved at a later stage. Because the scope of tendering is no more than about 0.25 per cent either way,

the project will be jeopardised to save perhaps 0.125 per cent of the budget. This does not make investment sense. Even today the provision of services is a personal business and suppliers can only be safely chosen by interview and track record. There is an opportunity after selection for fee negotiation, but at least then the customer has some idea of what he is trying to buy.
Michael Manser,
Manser Associates,
Architects,
Bridge Studios,
Hammer Smith Bridge,
London W6

Late payment true scourge of small business

From Mr William Brandon.
Sir, Most businessmen would prefer a high-handed bank to a tight-fisted debtor. Late payment is the true scourge of small business, and its prevalence makes the banks' work all the more difficult. When a business bank with its suppliers' proper banks find it difficult to assess the firm's true trading position. It is time this avowedly pro-business government realised that stiff laws on late payment are a necessary part of economic infrastructure. Suggestions that there should be a statutory right to interest on unpaid bills miss the point - companies would not enforce such a right any more than they enforce similar rights under existing contracts. They would lose clients. A neater way would be to treat payment later than 30 days as wrongful trading, and to make it a duty of auditors and suppliers to report such trading to the Department of Trade and Industry. Offending directors would then be barred from serving as directors of limited companies. Such a law would prevent hard-pressed companies from treating their suppliers as bankers.
William Brandon,
Flat 3,
26 Morwell Street,
London WC1B 3AR

Literature should be seen as a shared heritage

From Mr James O Boyt.
Sir, The remark that "even the two Americans sitting beside me" knew the story of Pickwick Papers was condescending and offensive, yet that is what the reviewer said (Arts, October 9). This would be comparable to an American reviewer expressing surprise that an English audience would be familiar with the story of *Mrs Fair Lady* when it opened in New York on March 15 1956. It opened in London on April 30 1950. It was, of course, based on Pygmalion by George Bernard Shaw, an Irishman. I was born, raised and educated in Iowa in the agricultural heartland of America. I have enjoyed Pickwick Papers since I first read it, in Iowa, in my teens. My three-volume set

of the adventures of Mr Pickwick and friends occupies an important place in my home library. Scrooge, Tiny Tim, Sydney Carton, Fagin and countless others form household words wherever English is spoken. None of us should claim or want an exclusive to the great

body of English literature. The authors may be English, Irish, Canadian, American, or Australian but their work is part of the wonderful heritage we share.
James O Boyt,
524 East Grand Avenue,
Des Moines,
Iowa, US

So where was the surprise?

From Mr Geoffrey Elliott.
Sir, You reported (October 26) the arrest of 11 people in and around Liverpool in a series of "pre-dawn raids", including Mr Derek Hatton, former deputy leader of Liverpool City Council. On another page you published a photograph of Mr Hatton being escorted, after his

arrest, by two police officers; the latter so dapper, it would be an insult to describe them as in plain clothes. "Raid" connotes surprise, so how did the photographer get there?
Geoffrey Elliott,
Villa Cliff,
Knapton Estates Road,
Smith's FL 08,
Bermuda

Too soon to talk of decline of mezzanine financing in the UK

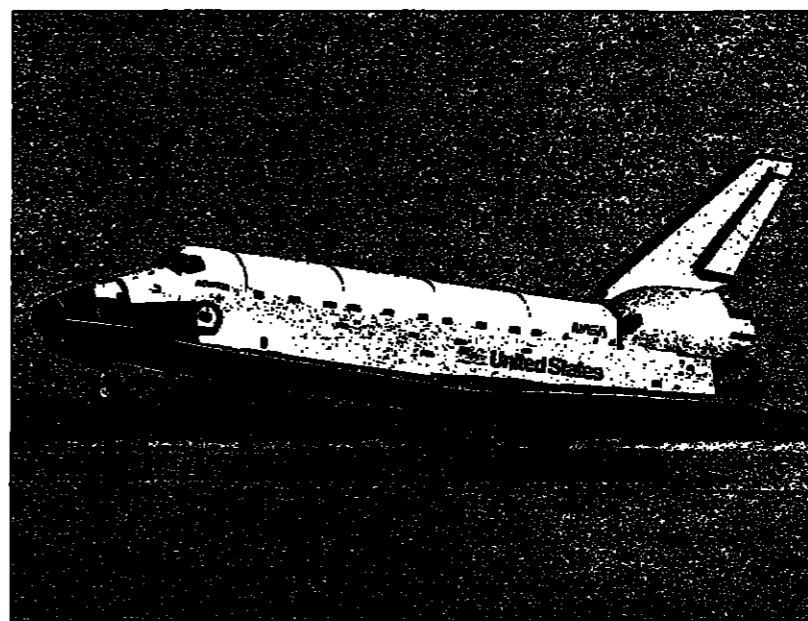
From Mr Erik Linnes.
Sir, Although you note a decline in UK mezzanine financing since 1989 in your article of October 15, the facts require more careful analysis. The use of subordinated debt or mezzanine in the UK grew quite steadily up until 1989 when three Jumbo management buy-outs (MBOs) using mezzanine were completed, causing an unusually large rise. If those deals are excluded the use of mezzanine actually increased in 1990. Although the total for 1991 may be lower, which is hardly surprising given the state of the economy

and a dismal first half in bid (as well as mezzanine) activity, the second-half trend is up significantly. The continuing recovery of mezzanine will prove that it is not a relic of the 1980s but rather a lasting and constructive addition to traditional debt and equity financing instruments. It is also important to reiterate why mezzanine in Europe is different from the US. It was developed in Europe first by banks, and now by specialist funds, as a private, non-traded market with extensive documentation (unlike in America) very much like bank loan

agreements. Lender-investors have known from the start that they would have to live with the credit risk for the (5-10-year) duration, with no market in which to unload it. As to availability it is true that many bank participants have withdrawn, judging it to be a business best run by specialists using dedicated funds. However there is at least £300m in committed, uninvested mezzanine funds in London and as much again on the continent, so supply is ample. It is important to note that an analysis of the UK market in isolation can be misleading,

because mezzanine investors in the City serve all of Europe and in turn compete with continental investors doing business here. It is now the exception that an MBO or other financing using mezzanine involves a company active in just one national market. Certainly during the last year deal-makers have been most active on pan-European companies more often than had their headquarters outside the UK.
Erik Linnes,
general manager,
Kleinwort Benson
European Mezzanine Fund,
20 Fenchurch Street, EC1

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INTERNATIONAL COMPANIES AND FINANCE

Elkem plunges further into loss

By Karen Fosall in Oslo

ELKEM, the Norwegian light metals producer, plunged deeper into the red, before extraordinary items, in the first nine months of the year.

The company blamed the loss of Nkr347m (\$55.1m), against a Nkr40m deficit in the previous corresponding term, on difficult market conditions for its main products which continued throughout the third quarter of the year.

Mr Fredrik Vogt Lørentzen, Elkem's president, warned that a reduction in price of Nkr2,000 per tonne from December 1990 to December 1991 for silicon metals was expected to reduce annual income by about Nkr200m. The group has an annual silicon

metal production capacity of 110,000 tonnes.

Elkem also warned that markets for main products are subject to over-capacity and unusually high metal stock levels causing uncertainty about when an upturn in the world economy would lead to a better market balance for its products.

One bright spot for the company was a Nkr179m gain from the sale of its 50 per cent shareholding in Alcoa Nederland Holding. This reduced pre-tax net losses in the first three quarters of this year to Nkr188m.

Group sales in the period were reduced by Nkr252m to Nkr5.86bn, however, while an operating loss of Nkr57m was

experienced, compared with an operating profit of Nkr82m in the corresponding period last year.

Elkem said it had lost "considerable" market share in ferro-alloys as western steel production during the third quarter of the year fell by 1.4 per cent. But a "considerable" portion of Elkem's aluminium production had been sold forward at higher prices.

Elkem said it had stopped producing manganese in Beauharnois, Canada.

"In light of the market situation, we have found it appropriate to implement further production reductions during the fourth quarter at several of our plants," Elkem warned.

To this end, closures in Nor-

way include three ferro-silicon furnaces; a manganese smelting plant and a silicon metal plant. For Europe, Elkem said that it was barely operating at 70 per cent capacity utilisation. Elkem said a new review of its organisation was under way focusing on central administrative functions, plant staffing, sales and research and development.

"This will lead to further reductions in manning which will primarily be achieved through normal staff reductions and early retirement. Redundancies, however, may also be necessary," Elkem warned.

This means cutting staff by 1,000 from 7,430 in January to 6,430 by December.

Hungarian hotels sale delayed by six months

By Nicholas Denton in Budapest

THE flotation of Danubius, the Hungarian state-owned hotel chain, has been postponed for six months, delivering a severe blow to the country's ambitious privatisation programme and nascent stock market.

The privatisation of Danubius was undermined at the last minute by a controversial government decision to remove the tax relief on investment credits granted to hotels.

Coming against a background of depressed investor demand, the tax change stopped plans for an autumn offer of shares to western institutional and Hungarian individual investors via a flotation on the Budapest Stock Exchange (BSE).

"The planned flotation should be postponed while the relative merits of all other options for privatisation are reconsidered," the State Property Agency (SPA), the privatisation authority, said yesterday.

"This is a serious failure in the history of Hungarian privatisation; this would have been an important step," said Mr Karoly Szabo, SPA deputy director.

Danubius, which increased pre-tax profits by 70 per cent to Ft988m (\$12.8m) in 1990, was the flagship of the country's First Privatisation Programme. Western advisers had hoped that the issue would provide a breakthrough for institutional investment in Hungary.

Mr Peter Rajcsanyi, an SPA director, said that the 20 companies in the programme were now unlikely to go to the stock market in the foreseeable future.

It was the national travel agency floated on the Budapest bourse in June last year, remains the only significant privatised company on the Budapest exchange.

Undermined by the continuing conflict in neighbouring Yugoslavia and disappointing company profits, the BSE index closed at 804.7 yesterday, close to its all-time low and about a third down since March.

Rhône-Poulenc Rorer lifts net profit sharply to \$80m

By William Dawkins in Paris

RHÔNE-POULENC Rorer, the pharmaceuticals company formed last year when Rhône-Poulenc, the French state-owned chemicals group took control of Rorer, the US drug producer, yesterday reported a sharp rise in quarterly earnings.

Net profits rose to \$80m in the third quarter, more than three times the \$24m reported in the same period of 1990, on sales up to \$862m from \$838m. Adjusting for exchange rate changes and the sale of non-strategic products, the underlying growth in turnover is 14 per cent.

This brings net profits in the first nine months of the year to \$202m, compared with \$56m in the comparable period a year earlier. The group attributed the third-quarter improvement to strong increases in sales of its plasma derivatives and ethical drugs in the US. It maintained its French market position despite a slowdown in demand for prescription drugs.

The group made a \$69m exceptional profit during the quarter from asset sales but most of that was wiped out by a \$60m restructuring charge in Britain, Germany and the US, which completes the provisions announced last year.

Earnings per share rose from 18 cents in the third quarter of 1990 to 58 cents in the same period this year.

Compagnie Générale d'Industrie et des Participations (CGIP), the French holding company of the Wendel family, yesterday reported a profits rise for the first half and said 1991 net earnings would match last year's.

Net profits, excluding exceptional gains rose 6 per cent over the first six months of last year to FF315m. Both of CGIP's main investments, Cap Gemini Sogefi (CGS), Europe's leading software company and CMB Packaging, the Franco-British packaging group, have known difficulties recently, but CGIP emphasised that it was

pleased with their performance.

CGS last month announced a 36 per cent fall in first-half pre-tax earnings, while CMB has had to make changes in its top management following disagreements over management style. CMB's net earnings rose by nearly 9 per cent in the first half.

Mr Ernest-Antoine Seillière, CGIP's chairman, said: "Despite difficult economic conditions, we are pleased with the performance of the companies in the CGIP group. All of our companies have been working hard to strengthen their domestic and international competitive positions."

He said the recent link-up between CGS and Daimler-Benz, the German industrial giant, should allow CGS to strengthen its international position. Last July, CGS announced the sale of a minority stake in itself to Daimler-Benz, as part of an accord with the German group's computer services unit.

Alfa Laval falls 16% after financial items

ALFA LAVAL has reported a 16 per cent fall in profits, after financial items, to SKr74m for the first eight months of 1991, writes Robert Taylor.

The Swedish dairy and food processing equipment company, acquired earlier this year by the Swiss-based liquid packaging group Tetra Pak, said invoiced sales had risen 4 per cent in the period to SKr10.88bn from SKr10.43bn a year earlier.

Enso-Gutzeit suffers FM383m deficit

ENSO-GUTZEIT, Finland's fourth biggest forest group, fell into the red in the first eight months of the year following difficult international trading conditions, particularly for paper sales to the Soviet Union and UK, writes Enrique Tessier in Helsinki.

The state-owned group reported a loss before taxes, minority interests and extraordinary items of FM383m (\$92.5m), against a profit of FM381m in

the corresponding period last year. Losses before extraordinary items fell to FM407m from a profit of FM282m. Extraordinary items during the period include FM20m from the sale of shares in a subsidiary company.

Operating margin fell to FM74m from FM1.04bn, accounting for 12.2 and 15 per cent of sales respectively. Losses per share dropped to FM2.94 from a profit of FM1.97.

Consolidated sales slipped to FM6.09bn from FM6.93bn. Enso-Gutzeit said that the fall in turnover was also attributable to technical problems following certain machine rebuilds, and to losses incurred in the transport workers' strike last June.

Enso-Gutzeit's result was also strained by FM288m in foreign exchange losses and FM413m in net interest payments.

COMPANY NEWS IN BRIEF

ROYAL Trustco, the Canadian trust company, has reported lower-than-expected profits, mainly due to higher loan loss provisions, writes Robert Gibbons in Montreal. But it is maintaining its 18.5 cents a share quarterly dividend.

Third-quarter profit was C\$33m (US\$29.3m), or 10 cents a share, down from C\$45m, or 19 cents. Nine-month profit was \$115m, or 42 cents, against C\$146m, or 57 cents. Loan loss provisions were \$112m, up from \$48m.

Nikon, the leading Japanese camera-maker which is part of the Mitsubishi group, posted a 43 per cent fall in first-half unconsolidated pre-tax profits to Y5.5bn (\$41.9m), writes Emiko Terazono in Tokyo.

This was due to a fall in retail prices for cameras and foreign exchange losses caused by the appreciation of the yen.

Sales edged ahead to Y123.2bn while after-tax profits fell 59.3 per cent to Y2.4bn.

Pitney Bowes, the leading US supplier of mailing equipment and retail and office systems, has reported third-quarter net profits of \$72m, or 90 cents, on revenues of \$813.9m, writes Rivka Nachoma in New York. This compared with net income of \$11.8m, or 15 cents, on revenues of \$799.7m a year earlier.

Nine-month net income was \$207.4m, or \$2.60, on revenues of \$2.4bn against net income of \$131.9m, or \$1.66 a share on revenues of \$2.3bn in 1990.

Allied-Signal, the diversified industrial group, posted a third-quarter net loss of \$54m, or \$3.54 a share, against a net profit of \$105m, or 78 cents, in 1990, writes Rivka Nachoma. The 1991 earnings include

one-time pre-tax write-offs of \$980m for previously announced restructuring costs. Excluding these, net earnings for the quarter were \$80m. Net sales fell to \$2.88bn from \$2.96bn.

Stone Container, a leading US producer of paper products, reported a third-quarter net loss of \$13.4m, or 22 cents a share, on sales of \$1.36bn, writes Rivka Nachoma. This compared with a net profit of \$19.7m, or 33 cents, and sales of \$1.43bn last year.

After nine months, the net loss was \$12.3m, or 20 cents a share, with sales of \$4.03bn. For the same period last year, net income was \$96m, or \$1.43 a share, on sales of \$4.3bn.

Grumman, the largest US producer of carrier-based aircraft, reported third-quarter net income of \$22.7m, or 66

cents a share, against \$25.6m, or 75 cents, writes Rivka Nachoma. Sales were unchanged at \$1.0bn.

Nine-month net income was \$74.8m, or \$2.17, against \$68.8m, or \$2.00, on sales of \$1.3bn against \$1.2bn.

Lower nickel prices and a higher provision for deferred taxes cut the third-quarter net earnings of PT International Nickel Indonesia by 29 per cent, writes Kenneth Gooding, Mining Correspondent. The company was floated on the Jakarta stock exchange in April last year.

The fall to US\$13.9m, or 5 cents a share, from US\$19.6m, or 8 cents, would have been greater except that production of nickel in matte - an intermediate material - reached a record 21.2m pounds in the quarter, up from 13.3m pounds in the third quarter last year.

This announcement appears as a matter of record only.

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The undersigned acted as financial advisor to Hudig-Langeveldt Groep bv

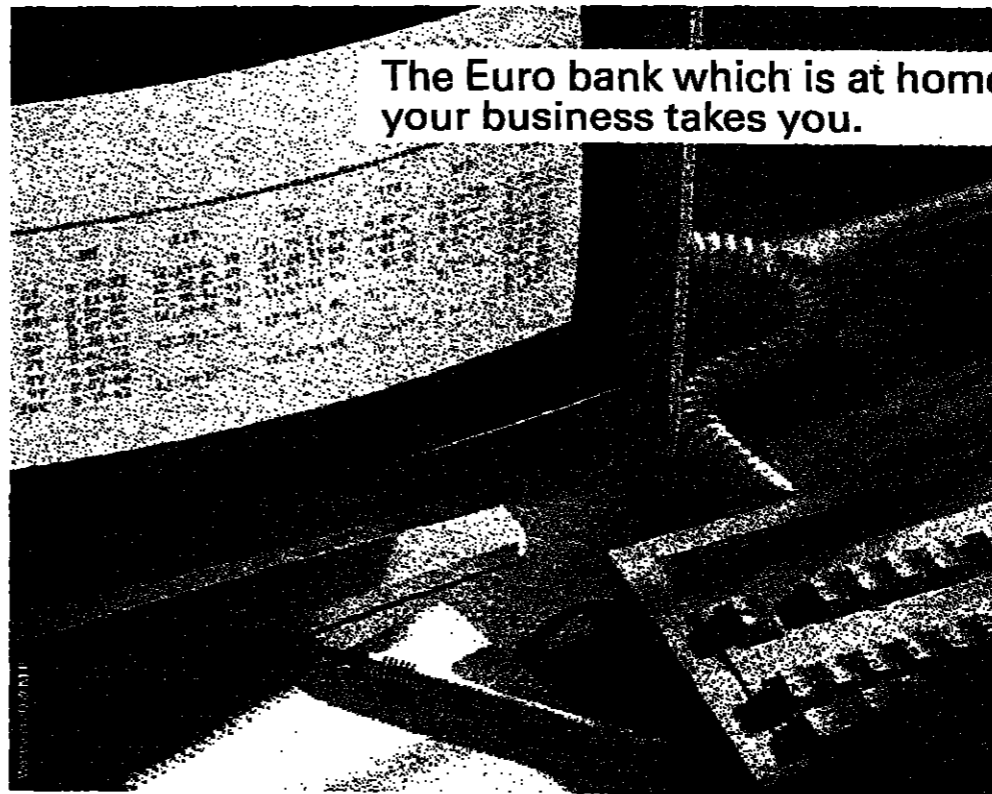
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INTERNATIONAL COMPANIES AND FINANCE

Eastman Kodak returns disappoint Wall Street

By Karen Zagor in New York

EASTMAN Kodak, the world's biggest producer of photographic equipment, yesterday turned in disappointing third-quarter results with lower operating income in all four of its major business segments.

Wall Street reacted by marking Kodak's stock \$1.10 lower on the news. By mid-session, the stock had recovered slightly, for a net loss of 1/4 to 1/2% in heavy trading.

Excluding a previously announced after-tax restructuring charge of \$435m, Kodak's third-quarter operating earnings fell 18 per cent to \$688m, while underlying net earnings dropped 11 per cent to \$317m, excluding the 1990 settlement with Polaroid.

Including one-time items, Kodak had a third-quarter net loss of \$118m, or 37 cents a share, against a net loss of \$206m, or 38 cents, a year ago. Sales improved 3 per cent to \$4.93bn from \$4.77bn.

For the first nine months, Kodak had net income of \$417m, or \$1.28 a share, against \$377m, or \$1.16, on sales which rose to \$7.39bn from \$7.3bn.

Mr Kay Whitmore, Kodak's chief executive, said the company was resolved "to do what is necessary to bring about fundamental improvement in 1992 and beyond".

The company is already taking steps aimed at improving its performance, including streamlining its core imaging business and shedding 3,000 jobs.

Some analysts, however, are critical of Kodak's strategy of increasing spending on research and development (R&D) and marketing in what is seen as a mature market.

During the quarter, Kodak's sales, advertising, distribution and administrative expenses rose 10 per cent to \$1.37bn, while R&D spending grew 13 per cent to \$367m. Kodak has



Earnings at Boeing improve 6%

By Martin Dickson in New York

BOEING, the US aircraft manufacturer, yesterday reported a 6 per cent increase in third-quarter earnings and said the world's economic slowdown was still having a relatively minor impact on its order book.

Earnings were \$401m, or \$1.17 a share, against \$378m, or \$1.10, in the same period of 1990. Sales totalled \$7.65bn, up from \$7.18bn.

Nine-month earnings totalled \$1.16bn, or \$3.39 a share, up from \$1.07bn, or \$3.09, on sales up from \$20.5bn to \$21.56bn. The figures were in line with Wall Street expectations.

Boeing's chairman Mr Frank Shrontz (pictured above) said the earnings gains for both the quarter and nine months stemmed from increased commercial aircraft sales, lower operating losses in its defence and space businesses, and a lower US tax rate.

This was partly offset by higher research and development spending, mainly for the new 777 wide-bodied jet due to come into service in the middle of the decade, and substantially lower other income.

R&D spending in 1991 is expected to total \$1.5bn, up from \$827m last year.

The company's firm order backlog stood at \$95.9bn at the end of the third quarter against \$97.2bn at end-1990. Of that, some \$91.4bn was for commercial customers, virtually unchanged from 1990, and \$4.5bn for the US government, down from \$5.7bn.

Mr Shrontz said Boeing expected an operating loss for its defence and space business in 1991, but this would be significantly lower than in 1990 and a return to profitability was expected in 1992.

Japan Airlines yesterday said it had decided to order 20 Boeing 777s, worth roughly \$2bn, but had not yet chosen an engine.

For the full year to the end

Gencor plans rights issue despite fall

By Philip Gawth in Johannesburg

GENCOR, South Africa's second largest mining house, yesterday announced a drop in profits for the year to August but showed confidence in its future by announcing plans to hold a R2bn rights issue early next year.

The decline in attributable income to R1.4bn (\$490m) from R1.48bn, which compares favourably with other international resource companies, was largely due to continued weakness in the international economy, reflected in poor demand for commodities and lower export prices. For the first time in many years, there was also no boost to earnings from a depreciating rand.

Although downward pressure on profits is expected in the year ahead, the dividend has been lifted by 7.5 per cent to 43 cents a share, reflecting a long-term view on the trend in total returns. Earnings per share were 119.5 cents, compared with 125.8 cents.

Weak demand for commodities is reflected in the earnings from Gemmin, the holding company for Gencor's mining and mineral interests, which declined to R482m from R624m, still the largest contributor to group earnings, but down to 35 per cent of the total from 42 per cent. Sappi, the pulp and paper products group saw its share of earnings drop to 11

per cent, or R154m, from R240m (16 per cent).

Better performances came from Malbak, holding company for Gencor's industrial interests, and Engen, the integrated energy company in the group. Both lifted their share of attributable income, respectively from 8 to 9 per cent and 14 to 17 per cent.

Genbel, the group's mining finance and investment arm, lifted its proportion of group earnings to 30 per cent (R428m) from 22 per cent, the result of the improved quality of its portfolio and substantial transaction surpluses, mostly from the sale of gold shares.

Although growth from Gencor is not expected in the year ahead, Mr Derek Keys, executive chairman, predicted "spectacular" growth when market conditions improve. He said this would flow from increased capacity and the improved comparative cost position of many of the group's operations.

The rights issue is aimed at replenishing funds which have been depleted by Gencor funding the expansion of its subsidiaries. Further large drains on cash will come in the form of the Columbus stainless steel project and the Alusaf aluminium smelter, both R3bn plus projects, which Mr Keys expected would get the go-ahead.

Insurance fund to aid Japanese bank rescue

By Robert Thomson in Tokyo

JAPANESE financial authorities will use the country's bank deposit insurance fund for the first time to assist in the rescue takeover of a distressed provincial bank.

The Deposit Insurance Corporation is to provide Iyo Bank, based in western Japan, with Y8bn (\$60m) to help it absorb Toho Sogo Bank, whose plight has highlighted the difficulties confronting small banks following financial deregulation and the turmoil in Japanese financial markets.

The takeover is scheduled for April 1, and on that day an Y8bn loan will be extended to Iyo Bank at an interest rate 5 percentage points below that of the first issue of 10-year government bonds for fiscal 1992.

Iyo Bank, the 21st largest of Japan's regional banks, will then invest the money in 10-year bonds, and over the five-year term of the loan will take a Y2bn profit. A regional banks' association has already announced that it will effectively grant Iyo Bank Y1bn, and the Bank of Japan plans to assist by maintaining a series of concessional loans to Toho Sogo after the takeover is complete.

The corporation, established in 1971, is controlled jointly by the Bank of Japan and the Ministry of Finance and has funds of Y600bn which can be used to pay compensation to depositors in the event of a failure and to assist in rescue takeovers. Its funds come from premiums paid by commercial banks and the interest income on those premiums.

Toho Sogo Bank, which like Iyo Bank, is based in Ehime Prefecture, has an estimated Y30bn in bad loans, although Japanese officials believe as much as Y27bn may be written off through property sales and

other rationalisation measures.

The bank's problems began in the 1970s when an important customer, a local shipbuilder, experienced financial difficulties. Meanwhile, all small banks have faced intensified competition following the gradual deregulation of the financial system, and the central bank has encouraged mergers and takeovers to streamline the banking system.

The Deposit Insurance Corporation said that the assistance to Iyo Bank should not be interpreted as a greater willingness for the corporation to act.

allowances on aircraft purchases.

Earnings per share fell to 82 cents from 94 cents, but net tangible assets rose 74 cents to \$310.46, while the gross dividend was held at 15 cents.

SIA forecast a stronger second half. Fuel prices – an important component of costs – will be lower than year-ago levels as jet fuel prices have returned to pre-Gulf war levels, and advance passenger bookings have firmed.

The group's total assets expanded 6.5 per cent to \$88.6bn, while its cash stood at \$82.1bn.

Xerox dips 2% in third quarter

By Martin Dickson

XEROX, the US document processing group, yesterday reported a 2 per cent dip in third-quarter income from continuing operations and said it needed a stronger US economy for a resumption of equipment sales growth and improved earnings.

Income totalled \$121m, or \$1.06 a share, from continuing operations, against \$123m, or \$1.08, in the same period of 1990. Revenues were \$4.3bn. The figures compared with net income of \$132m, or \$1.16 a share, in last year's third quarter when income was included

from the group's discontinued third-party financing business. Income from the document processing side totalled \$117m, against \$131m, on revenues up 1 per cent at \$3.33bn.

Mr Paul Allaire, Xerox's chairman, said lower end, less expensive copiers and printers continued to show strong growth worldwide. But while there had been some improvement in European and Latin American operations, US sales of higher end equipment, which required greater customer investment and had a longer selling cycle, continued

to be hurt by the current state of the US economy.

Investments supporting the roll-out of new products meant increased costs for the quarter.

Earnings from insurance and financial services operations totalled \$61m against \$32m in the same period last year.

Nine-month net operating income was \$363m, or \$3.18 a share, against \$368m, or \$3.11, last year which was restated for discontinued real estate and third party financing businesses. Nine-month revenues were \$9.98bn and \$9.67bn.

Comerica and Manufacturers Nat'l to merge

By Alan Friedman in New York

COMERICA and Manufacturers National Corporation, two mid-western banks, are planning to merge and create a combined entity with nearly \$27bn of total assets and a strong position in the Michigan banking market.

The Detroit-based Comerica will grant shareholders of Manufacturers 0.81 Comerica shares for each Manufacturers share. The merger will result in the elimination of about 1,800 of the 12,500 jobs in the combined bank and the reduction of about 60 of the 348 branches resulting from the merger.

Comerica currently has \$14.3bn of assets and Manufacturers \$12.5bn. The two banks say they will not require any new capital to complete the merger, but expect to take a one-time restructuring charge of \$106m to \$115m.

Continental Air to sell Air Micronesia operation

By Nikkai Taik in New York

CONTINENTAL Airlines, the bankrupt US carrier which has been in talks with various potential partners, is selling its Air Micronesia operation for \$270m in cash, plus \$20m in preferred stock.

The disposal of the business, in which Continental held a controlling stake, had been expected for months, and the price is much as anticipated. The deal includes the Continental/Air Micronesia route authorities between Guam and various destinations in the mid-Pacific and Far East, together with gates, landing slots, maintenance and airport facilities.

The purchaser, Pacific Micronesia Corporation, whose shareholders, in turn, comprises Arral & Partners, a Hong Kong-based bank, and United Micronesia Development Association – will also have the right to lease 15 aircraft operat-

ing on the routes; use the Continental name in conjunction with the operation; and code-share.

Continental, which said that it hopes to close the deal in early 1992, stressed that its operation between Honolulu and Tokyo, and in the South Pacific (including New Zealand and Australia) would not be affected.

Continental filed for protection under Chapter 11 of the US bankruptcy code a year ago. There have been management changes recently, and the airline has faced increasing pressure to find a merger partner. Talks with Northwest Airlines have been viewed as the most promising. But Northwest, in which KLM has a small stake, has been rumoured to be involved in a possible link between the Dutch carrier and British Airways.

Sharp reverse at Hino Motors

By Robert Thomson in Tokyo

HINO Motors, Japan's leading truck manufacturer which is part of the Toyota Motor group, yesterday blamed a sharp reduction in sales to south-east Asia for a 46.2 per cent fall to Y7bn (\$54.4m) in first-half pre-tax profit.

Total sales for the latest period fell 1.8 per cent to Y315.3bn, though domestic sales showed steady growth, and sales for the year to end-March are expected to be Y697m, a fall of 1.3 per cent from last year.

Hino predicts a pre-tax profit for the year of only Y10bn, down from Y20.1bn.

Dofasco in the red

DOFASCO, Canada's biggest steel maker, posted a third-quarter loss of C\$10.1m, or 24 cents a share, against profit of C\$7.1m, or 1 cent, a year earlier, writes Robert Gibbins in Montreal. Sales dipped 18 per cent to \$498m.

After nine months, the loss was C\$23.8m, or 64 cents, on sales of \$1.5bn, against profits of \$44.8m, or 38 cents, on sales of \$1.77bn.

Colgate in \$105m deal

COLGATE-Palmolive, the US consumer products group, has bolstered its position in the world oral hygiene market with the \$105m purchase of Plax International, an anti-plaque mouthwash business, from Pfizer, the US pharmaceuticals group, writes Martin Dickson.

Plax claims to be the leading mouthwash outside the US, with an average market share

of 30 per cent in the 35 countries where it is sold. Pfizer will continue to market the product in the US, Canada and Puerto Rico.

A strategic aim of Colgate-Palmolive, best-known for its Colgate toothpaste, is to increase its range of products in the oral hygiene market over the next decade.

Plax International has sales of \$70m.

Pancontinental chief quits as takeover bid looms

By Kevin Brown in Sydney

MR TONY GREY, the founder and chairman of Pancontinental Mining, the Australian diversified miner, has resigned from the board, two months after the sale of the group's Jabluka uranium deposit to Energy Resources of Australia (ERA).

Mr Grey founded Pancontinental to develop the huge Jabluka deposit, but failed to persuade Australia's Labor government to relax controls on uranium mining which prevented development.

The deposit was sold to ERA for A\$125m (US\$99.2m) after Pancontinental came under pressure to reduce its debts. ERA, a subsidiary of North Broken Hill Peko, operates a uranium mine at Ranger, a few miles from Jabluka in the Northern Territory.

Speculation that a takeover bid for Pancontinental may be imminent increased last week after Cogema, the French state-owned electricity generating group, said it had asked the government for permission to increase its 14.9 per cent stake. Cogema bought its Pancontinental holding two years ago to gain access to Jabluka. Foreign shareholdings of more than 15 per cent require federal government approval.

Cogema is thought to have paid around A\$2.40 a share for its stake. Pancontinental shares have slumped since the sale of the deposit. They closed

last night at 81 cents. Pancontinental has gold assets in Western Australia and West Africa, and is developing a large magnesite project in Queensland. The company reported a net loss of A\$108m last year.

Mr Robert Champion, a Cogema's Normandy Poseidon group, has taken the unusual step of cancelling a purchase of 10.3m shares in ACM Gold, formerly part of the Australian Consolidated Minerals (ACM) group.

Poseidon Gold bought the shares on the stock market after Normandy Poseidon gained control of about 40 per cent of ACM Gold through a joint takeover of ACM with Western Mining.

However, ACM Gold shares rose from 98 cents to 51 cents last week following the announcement of a big gold discovery by North Flinders Mines, a 49 per cent associate.

Poseidon Gold said it had bought the shares after the announcement of the discovery, and had paid a premium to the market price. It was concerned that some sellers "had not been made aware of the significance" of the discovery.

The company said it was "committed to maintaining the highest corporate ethical standards". It said the cancellation was intended to "enhance its standing with institutional investors".

GT CHILE GROWTH FUND

OCTOBER REPORT

"The Chilean market performed extremely well during the month of September, the local IGPA index registering a gain of 14.4%."



"This is GT reporting from Santiago."

The extract above was taken from the October report on the GT Chile Growth Fund Limited. A report on the progress of the Fund is, in fact, issued every month.

Following the reforms undertaken by the Government of Chile, the stock market has responded with an increase of 287% in dollar terms in the last two years (source: GT Capital Management Inc to 30.99%).

The net asset value of the GT Chile Growth Fund has grown by 159% in the last 12 months and by 173% since its launch on 15th February 1990 (source: GT Management PLC to 30.99%). Past performance is not a guide to the future.

The Fund is a closed-end investment company, designed for very sophisticated investors outside Chile, investing primarily in stocks quoted on the Chilean Securities Market.

Its investment objective is to achieve a total return in dollar terms, comprising income and capital gains, primarily through investment in equity and debt securities.

The Fund is denominated in US dollars and domiciled in the Cayman Islands. It is listed on the London Stock Exchange. Foreign currency fluctuations may affect the value of your investment.

The price of the ordinary shares is published in the Financial Times. The net asset value per ordinary share is published regularly on The Stock Exchange's Company News Service.

The value of shares and the income from them can fall as well as rise and you may not get back the amount you invest. For your copy of the Fund's monthly performance report, simply complete and return the coupon.

To: Lucy Fountain, GT Management PLC, FREEPOST, London EC2B 2DL. CALL FREE 0800 212274. Please send me further information and regular monthly performance reports on the GT Chile Growth Fund Limited. ☐ I am already a shareholder of the GT Chile Growth Fund Limited. ☐

NAME _____ ADDRESS _____ FT29/10/91

POSTCODE _____

GT-INVESTMENT MANAGERS

This advertisement has been issued on behalf of the GT Chile Growth Fund Limited by GT Management PLC, a member of IAGRO.



PAN-HOLDING
SOCIÉTÉ ANONYME
LUXEMBOURG

NOTICE TO THE SHAREHOLDERS
The Extraordinary General Meeting of Shareholders held on May 30, 1991 decided among others:

- to cancel the 65,000 shares held by the Company itself and thus to reduce the number of shares forming the Capital to 550,000.
- to increase the Capital to USD 110,000,000 without issuing new shares, by raising the par value of each share from USD 100 to USD 200.

For the purpose of reflecting these changes in the structure of the Capital, all bearer and registered share certificates will be stamped. Therefore and from November 4, 1991 onwards, the Shareholders will have to apply for the validation stamp:

- either to Banque Générale du Luxembourg, 27 avenue Monterey, Luxembourg. Transfer agent and Centralizer
- or to one of the Paying Agents: Banque Internationale à Luxembourg, 2, boulevard Royal, Luxembourg. Banque Degroof, 44, rue de l'Industrie, Bruxelles.

Credit Lyonnais, 19, boulevard des Italiens, Paris
Midland Securities Services
UK Securities Department
Corporate Action Paying Agency Section
Ground Floor, Suffolk House, 5, Laurence Pountney Hill, London EC4R 0EU
Société de Banque Suisse, Paradeplatz 5, Zürich.

The Chase Manhattan Bank, N.A.
Coupon Paying Department, 14th Floor, 1, New York Plaza, New York, NY 10004.

From December 2, 1991 onwards, only stamped bearer certificates will be good delivery on the Luxembourg and Paris Stock Exchanges.

The restated Articles of Incorporation have been lodged with the Chief Registrar of the District Court of Luxembourg (Greffier en Chef du Tribunal d'Arrondissement de l. Luxembourg), where they are available for inspection and where copies thereof can be obtained upon request.

The Board of Directors

INTERNATIONAL CAPITAL MARKETS

Japan's OTC index falls in sobering debut for Jasdak

By Emiko Terazono in Tokyo

HOPES for Japan's over-the-counter share market, heightened by frenzied trading last week, fell flat yesterday as the launch of a new automated stock trading system failed to attract investors.

Last week the OTC index rose 4.5 per cent to 2,656.23, with average daily turnover reaching 4.74m shares. The rally came amid orchestrated claims by the local media and brokers that Jasdak - Japan's version of Nasdaq, the US OTC trading system - would boost investor interest. This prompted a trading "theme" in the larger Tokyo Stock Exchange's first and second sections, with smaller issues gaining popularity.

Yesterday's 38.29 point fall in the OTC index on sluggish volume sobered the market, however.

The new automated system enables OTC trading, previously done by matching buy-sell orders by phone, to be conducted through computer terminals. Previously, a broker would place an order with a central body, Japan OTC Securities, which would then match orders manually. Investors would have to wait for the operator for a fax confirming the transaction.

With Jasdak, traders enter orders into the computer terminal and these are matched and processed automatically by a host computer. The new system also provides market information simultaneously, such as bid and offered stock prices, and trading volume.

Japanese brokers had been enthusiastic before the launch of the new system. Supporters say it will increase liquidity by

speeding transactions and raising trading capacity by as much as five times. Equally, increasing liquidity is expected to reduce the notorious volatility of the OTC market.

The introduction of Jasdak was decided in 1990, after rapid growth in the OTC market which saw volume rising from 986,700 shares a day in 1988 to 5.1m in 1990. The number of listed companies has also increased, from 181 in 1988 to 357 in 1990. The number is expected to increase to 450 by the end of this year.

However, some market participants see the launch of Jasdak making little difference in OTC trading. "Trading may become faster but the companies listed on the OTC have not changed," says an equities trader at Dai-ichi Life Insurance.

Mr Craig Chudler, equity analyst at UBS Phillips & Drew, says that Jasdak's launch coincides with a movement by investors out of the OTC market. "The launch of Jasdak symbolises the maturity of the OTC market and not a beginning of a new era," Mr Chudler says.

Many investors are put off OTC stocks because smaller companies are vulnerable to the current economic slowdown. Foreign investment trusts, which set up OTC funds when the market hit its highs in 1990, are looking to run down their holdings.

Domestic investment trusts, which were buyers when the OTC index stood at 3,000 early this year and are now carrying losses, are also expected to unload holdings once the market rebounds.

Vital and Swiss Life extend agreement on co-operation

VITAL Forsikring, one of Norway's top five insurers, has agreed with Schweizerische Lebensversicherung (Swiss Life) to extend an existing commercial co-operation agreement, writes Karen Fosell in Oslo.

The pact calls for collabora-

tion in product development, marketing, computer systems and investment.

Last June, Swiss Life took a 1 per cent stake in Vital. Under the new agreement, Swiss Life has an option to extend this shareholding to a "strategic" stake.

Liffe merger improves outlook for equity options

Tracy Corrigan reports on steps intended to give the combined market a more secure future

THE outlook for trading in UK equity options took a turn for the better yesterday when the London International Financial Futures Exchange (Liffe) and the London Traded Options Market (LTOM) finally set a date for their merger.

From January 31, equity options will be traded at the newly-formed London International Financial Futures and Options Exchange at its new Cannon Bridge headquarters in London.

The proximity to Liffe - mostly a successful interest rate-related futures business - is expected to have a knock-on effect on equity options business. In addition, important structural changes could give the market a new lease of life.

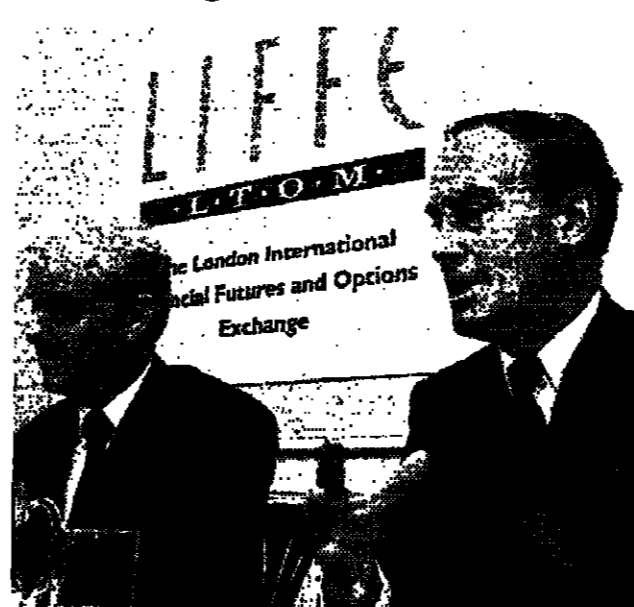
As Mr Geoffrey Chamberlain, chairman of LTOM, admitted: "There were a number of errors in the structure of the market when it was set up in 1978." The market had no start-up capital from members, and was stymied by unfavourable taxation rules.

Last week, the UK government announced that members of the new exchange would have exemption from stamp duty and stamp duty reserve tax at the new exchange. They would also be allowed to engage in stock lending.

Many members appear to have decided to put behind them some of the bitter controversy which arose during the evolution of the new exchange. Though independent traders are still unhappy at the idea that screen-based trading could be implemented at a later date, they are at least relieved that open-outcry trading will be given a chance. There also is some optimism that the transparency of the market will improve, reducing some of the advantages of the large market-makers which dominate the underlying stock market.

The integrated firms have lost their grip on market, so there will be great opportunities for new entrants, said the head of one trading firm.

Equally, the large UK firms



David Burton (left), Liffe chairman, and Michael Jenkins, Liffe chief executive, set date for merger with LTOM

Among firms not yet convinced that the new equity options market will be successful, there is at least the faith that Liffe will not do anything detrimental to the value of the seats. The question is whether there is sufficient conviction that the market will be successful to create real commitment to the market, although members have to make some commitment to making a market. "Some firms may take seats and then adopt a rather wait-and-see attitude, before really committing resources," one trader suggested.

Further, the economic environment is not favourable. Although volumes on other exchanges, such as the European Options Exchange in Amsterdam, are much higher, profitability is being squeezed in many exchanges. Trading in the underlying UK stock market is not particularly exciting at the moment.

With daily volume of only 25,000 contracts on LTOM, there is a long way to go. Even

50,000 contracts a day could not really be considered a successful market.

However, there have been important changes in investment legislation which could prove something of a catalyst. "The creation of futures and options funds and the concept of EPM (efficient portfolio management) will affect every existing unit trust and will also have an impact on advice that brokers give fund managers," said Ms Lesley Powell, a derivatives consultant.

Some traders believe the success of the equity options market will depend largely on its ability to attract retail investors. LTOM trading is currently made up of 30 per cent retail and 70 per cent institutional business. The proportions on the CBOE in Chicago are reversed and the EOE in Amsterdam boasts 80 per cent retail participation.

For the derivatives markets, the merger has the importance, as Mr Chamberlain observed, of "another Big Bang".

Pernod Ricard launches FF400m share-linked issue

By Simon London

PERNOD Ricard, the drinks group, yesterday became the latest French company to launch an international bond issue linked to its shares, but without giving investors the right to take an equity stake.

The company launched a FF400m five-year issue, lead-managed by Société Générale. The bonds do not pay a coupon, but redemption value is

linked to the performance of the company's shares. The maximum redemption value is 230 per cent, giving a yield of 18.15 per cent.

Alternatively, the bonds could be redeemed at the par value if the shares do not progress beyond yesterday's FF171.74 a share. At this level, the shares trade on a dividend yield of around 3.5 per cent.

The formula is popular with companies that want to offer equity-linked debt securities without the risk of dilution to existing shareholders.

Elsewhere, banks dominated the international bond market with corporate borrowers sidelined by generally weak market conditions.

Canadian Imperial Bank of Commerce launched a Cdn\$150m six-year deal, aimed primarily at retail investors. The bonds carry a coupon of 9 1/2 per cent and were re-offered to investors at a fixed price of 99.65 for a spread of 57 basis points over Canadian Treasury bonds.

The deal, lead-managed by Wood Gundy, was seen as fairly priced by other syndicate managers but was launched into a weak market.

Government bonds fell in early trading and the CIBC bonds followed suit to trade at 99.40 bid by late afternoon, for a yield spread of 58 basis points.

In the Euro-bond sector, KFW, the German government-backed financial institution, launched a L200m seven-year deal, lead-managed by Banca Commerciale Italiana.

Against the issue, the Italian Treasury is set to auction L14,500m bonds this week. The D-Mark sector has been subdued for most of the year with investors fearing higher interest rates and the German government borrowing heavily for finance re-unification.

However, there are signs that sentiment has turned for the better since the summer. Yesterday, Deutsche Bank launched a DM750m four-year deal, with an 8 1/2 per cent coupon and an issue price of par.

Nederlandse Gasunie, the Dutch state-owned gas utility which also carries a triple-A credit rating, also launched a DM100m seven-year issue. The deal, lead-managed by J.P. Morgan, suffered from the launch of the much larger Deutsche Bank issue and a weak government bond market.

The bonds fell from an issue price of 102.20 to stand at 99.88 bid by late afternoon, just above full fees of 2 1/2 per cent.

THE Philippines programme to sell state companies and other assets has only reached just over half of its target after five years, and will try to finish disposing of the big items this year, Renter reports from Manila.

Philippine Airlines, Philippine National Bank which is already 30 per cent privatised, Manila Hotel and National Steel head the properties listed for public sale in 1991, the Committee on Privatisation said.

"Privatisation activities are presently focused on the sale of large and highly visible corporations," it said.

The committee said the programme had generated 420n pesos (\$1.6bn) in gross revenues from the sale of state assets since it was launched in early 1987.

The programme had sold 69 of the 122 listed government-owned and controlled corporations for 9bn pesos and 269 of the 369 government assets - mostly financial claims on companies indebted to government banks - for 33bn pesos.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

The Financial Times Ltd 1991. Compiled by the Financial Times Ltd in conjunction with the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS		Monday October 28 1991										Fri Oct 25		Wed Oct 23		Year ago (approx)	
Figures in parentheses show number of stocks per sector		Index	Day's Change %	Est. Earnings (p) (Mill.)	Gross Div. Yield (%) (Act at 5.97)	Est. P/E Ratio	Adj. ad. to date	Index	Index %	Index No.	Index No.						
1	CAPITAL GOODS (181)	813.15	+1.3	9.43	5.97	13.25	31.79	802.95	805.68	813.07	698.00						
2	Building Materials (23)	980.35	+1.5	7.55	6.35	17.45	41.35	966.32	972.42	986.07	925.65						
3	Contracting, Construction (30)	1021.31	+0.9	8.54	6.93	16.11	49.81	1019.79	1024.78	1034.79	974.45						
4	Electricals (11)	2485.19	+0.1	8.79	5.31	14.41	84.23	2461.65	2479.54	2498.08	1899.26						
5	Electronics (25)	1706.53	+1.4	11.13	5.58	13.36	51.73	1683.13	1704.82	1717.30	1568.38						
6	Engineering-Aerospace (8)	356.86	+0.8	15.70	7.28	7.69	18.52	350.63	357.04	362.12	331.43						
7	Engineering-General (43)	486.63	+0.7	10.09	5.21	12.19	18.58	483.48	485.35	485.26	356.40						
8	Metals and Metal Forming (9)	434.89	+0.4	15.56	8.15	8.07	16.43	432.08	434.07	436.21	360.40						
9	Motors (12)	340.96	+0.6	6.97	7.06	19.64	17.56	339.48	336.31	341.21	268.14						
10	Other Industrial Materials (20)	1586.38	+0.9	7.96	5.14	14.93	57.99	1556.73	1559.50	1575.90	1149.54						
11	CONSUMER GROUP (190)	1562.32	+1.6	7.32	3.57	16.90	34.04	1537.66	1551.19	1556.14	1186.90						
12	Brewers and Distillers (22)	1945.25	+1.2	7.92	3.46	15.36	38.33	1922.96	1947.69	1937.26	1480.08						
13	Food Manufacturers (19)	2206.49	+1.4	9.40	4.14	13.17	44.40	2189.47	2204.48	2214.02	1682.26						
14	Food Retailing (17)	2040.57	+0.9	9.16	3.39	14.26	51.25	2079.28	2024.49	2047.67	2225.29						
15	Health and Household (23)	3875.90	+2.9	5.21	2.44	22.02	61.87	3765.36	3714.50	3717.27	2439.78						
16	Hotels and Leisure (4)	1337.65	+1.3	7.62	5.26	16.22	45.41	1320.73	1321.43	1321.54	1192.51						
17	Media (26)	1505.90	+1.3	7.45	4.71	18.28	44.40	1490.34	1514.28	1518.26	1088.46						
18	Packaging, Paper & Printing (17)	756.14	+0.4	7.43	3.36	16.34	23.54	739.73	746.58	748.48	670.79						
19	Stores (33)	1017.67	+1.1	7.36	3.65	17.79	20.52	1006.60	1015.64	1012.47	798.79						
20	Textiles (9)	644.73	+1.3	7.17	4.83	17.49	35.49	636.72	635.97	637.74	417.89						
21	OTHER GROUPS (118)	2564.72	+1.4	9.56	5.16	13.15	32.62	2528.88	2548.94	2562.78	953.71						
22	Business Services (12)	1400.18	+1.7	7.62	4.64	16.31	39.20	1376.46	1400.18	1400.18	1024.91						
23	Chemicals (21)	1439.08	+1.6	7.01	5.93	17.62	38.89	1420.58	1425.99	1432.94	990.14						
24	Conglomerates (11)	1478.85	+1.8	9.79	7.09	12.38	38.87	1452.55	1460.87	1467.97	1249.14						
25	Transport (13)	2323.98	+1.6	7.36	4.88	16.83	68.02	2287.15	2292.52	2295.13	1863.91						
26	Electricity (16)	1201.97	+1.1	14.61	5.41	8.92	27.53	1189.00	1204.94	1219.76	910.00						
27	Telecommunications (4)	1439.08	+1.6	7.01	5.93	17.62	31.33	1413.01	1422.98	1446.46	1024.91						
28	Water (10)	2204.56	+0.4	17.72	6.68	6.25	11.37	2204.36	2205.35	2215.95	1948.94						
29	Miscellaneous (23)	1820.17	+0.3	5.38	4.41	25.77	70.17	1814.52	1839.68	1865.22	1484.31						
30	INDUSTRIAL GROUP (481)	1279.84	+1.5	8.43	4.53	14.79	34.61	1261.05	1265.71	1278.90	995.88						
31	Oil & Gas (19)	2419.27	+1.1	10.81	5.75	12.22	93.60	2393.26	2407.67	2445.74	2206.29						
32	500 SHARE INDEX (500)	1377.49	+1.4	8.73	4.88	14.42	39.49	1357.94	1363.49	1378.67	1102.44						
33	FINANCIAL GROUP (91)	777.45	+1.6	6.02	4.02	15.00	32.04	765.51	771.10	782.27	671.67						
34	Banks (9)	620.18	+1.8	4.53	5.80	41.75	37.46	604.10	610.43	622.25	707.25						
35	Insurance (Life) (7)	1441.79	+1.0	5.57	4.15	13.47	43.15	1425.08	1432.98	1446.46	1264.91						
36	Insurance (Non-Life) (2)	560.20	+0.4	7.71	7.71	37.94	32.94	541.14	551.34	568.64	574.08						
37	Insurance (Brokers) (7)	1105.62	+0.1	7.43	6.13	17.62	43.14	1104.93	1108.96	1116.81	841.58						
38	Merchant Banks (7)	479.18	+0.7	4.41	4.41	4.41	13.08	476.87	477.92	476.03	362.80						
39	Property (3)	895.90	+1.9	6.03	5.54	23.54	24.74	876.97	877.76	880.72	725.45						
40	Other Financial (37)	1377.04	+0.1	11.12	11.29	11.29	11.29	1356.79	1372.65	1376.28	1024.78						
41	Investment Trust (70)	1229.54	+0.6	3.52	3.52	3.52	28.89	1222.93	1225.60	1225.60	1004.71						
42	ALL-SHARE INDEX (6641)	1233.69	+1.4	8.81	4.81	13.78	37.16	1218.26	1221.71	1225.40	997.43						
		Index No.	Day's Change %	Est. Earnings (p) High/Low	Div. Yield (%) Low/Hi	Oct 26	Oct 26	Oct 26	Oct 26	Oct 26	Oct 26	Year ago					
FT-SE 100 SHARE INDEX		2598.5	+4.83	2595.1	2520.4	2514.7	2528.3	2561.1	2559.5	2575.7	2062.1						

UK COMPANY NEWS

Wm Cook hits at steel subsidies

By Richard Gourlay

MR ANDREW Cook, chairman of the Sheffield-based foundry group William Cook, yesterday attacked state subsidies for European steel makers and criticised the government for not doing more to fight the UK industry's battles in Brussels.

He made this statement after announcing a fall of 30 per cent to £4.05m in interim pre-tax profits.

Mr Cook said subsidised European competition, which had been made worse by the ending of the cold war, meant the industry faced a gloomy immediate future.

"Some European producers are penetrating the UK market at prices below my costs and below their costs and are making huge losses," Mr Cook said.

The warning comes shortly after ASW Holdings, the Cardiff-based steel and wire group, said that continental European steel prices were not "sustainable unless supported by state aid or subsidy".

In July, British Steel also added its weight to the argument with Brussels. Sir Robert Scholey, the British Steel chairman, complained to the European Commission about Credit Lyonnais' proposal to take a 10 per cent stake in Uel-nor-Sudor, both of which are French state-owned enterprises.

British Steel's complaint was supported by a letter to the Commission from Mr Peter Lilley, the Trade Secretary, and may have helped prompt the Commission into sponsoring an investigation of the deal.

Mr Cook says the DTI makes

general protests about suspected foul play and suspected hidden subsidies but has shied away from specific assistance for smaller producers, like William Cook.

The company announced a fall in pre-tax profits for the six months to September from £5.8m to £4.05m on sales 20 per cent lower at £56.81m. Earnings fell from 20.5p to 12.96p but the interim dividend is held at 5p.

Cook is currently keeping Brussels lawyers busy on four of its complaints to the Commission, one of which it has now taken to the European Court.

This case involves PYRSA (Piezas y Rodejas), a Spanish foundry where the government holds a 5 per cent stake but has provided half the capital.

Mr Cook says that although the Commission discovered evidence of state subsidy, it "washed its hands of the matter" and did not seek repayment to the Spanish government of the alleged aid.

Cook has taken the case to the European Court, seeking a ruling that the Commission was guilty of dereliction of duty in allowing the subsidies in the first place.

Another Cook crusade has led to anti-dumping charges against Voest-Alpine of Austria. He has also made a similar complaint against South African manganese steel makers, claiming that they receive a subsidy for tooling up on many export orders which is equivalent to a price advantage of up to 20 per cent.



UK steelmakers: help needed for a brighter future

The newest threat to UK steel makers is looming from what was East Germany.

Guarantees of commercial bank loans by the Treuhänder, the state body responsible for selling off East German state-

held industries, has kept afloat a Magdeburg-based steel producer, Stahlgiesserei Rothensee, and allowed it to sell below cost in the UK market. Mr Cook has complained to the Commission.

Branson to sell Voyager stake to fund growth

By Paul Betts

MR RICHARD Branson is planning to sell a 20 to 25 per cent stake in his Voyager Travel holding company, which controls Virgin Atlantic Airways, to raise about £50m to finance the expansion of his long-distance airline.

Mr Branson said yesterday he had so far not approached any potential investors, but confirmed that his group had appointed Salomon Brothers, the US investment bank, to organise the sale of the stake.

Although the company does not need outside funding to run at its present level, we felt it was a good time to consider the sale of a minority stake to help finance our expansion into new routes," he said.

Mr Branson added that he had decided "some time ago" to seek more equity funding in the holding company, which also controls Virgin Holidays, Virgin Cargo, other aviation services and print distribution. The Japanese Seibu Saito group already has a 10 per cent interest in Voyager.

Mr Branson planned to expand his airline to serve "12 long-distance business cities around the world" with a fleet of between 16 and 18 large capacity aircraft. The company currently flies eight Boeing 747s. He was considering acquiring more 747s but was also thinking of ordering Boeing's new 777 twin-engine wide-body airliner.

The company's short-term plans were to start services next year to Johannesburg, San Francisco and Washington DC. It was also seeking additional landing and take-off slots at Tokyo to enable it to operate a service to Japan.

The UK Civil Aviation Authority was due to hold hearings next month on Virgin's application for additional slots at Tokyo, which were being fiercely opposed by British Airways.

Virgin Atlantic, which is expected to show sales of between £300m and £350m this year, is also challenging British Airways at London's Heathrow airport following the UK government's decision to open Heathrow to more airline competition.

Blacks Leisure beats recession with 21% advance to £2.2m

By Peggy Hollinger

STRONG sales of fashion footwear carried Blacks Leisure Group, the camping goods and sportswear retailer, to interim pre-tax profits 21 per cent higher at £2.2m, in spite of a tough trading environment.

Mr Simon Bentley, chairman and chief executive, said the results had been held back by the final £1.7m payment for Teesside Sports, acquired in 1987. Earnings per share were also depressed by the £4.7m 2-for-5 rights issue in June, rising just 0.02p to 6.41p.

Mr Bentley said that, although he was pleased with the results, the severe downturn in retailing meant a cautious approach should be adopted to the second half.

He stressed the importance of winter trading to the retailing division. "Christmas is

very important and difficult to anticipate," he said. He added, however, that the group was confident of a satisfactory performance for the full year.

Turnover for the 26 weeks to August 31 grew 15 per cent from £28.4m to £33.5m.

In sports distribution Fila footwear was the star performer, said Mr Bentley. The division had performed "tremendously well", with profits up by 44 per cent to £2.3m.

Blacks has the distribution rights to Fila and LA Gear sportswear in the UK.

The sports and outdoor retailing business was hardest hit, with profits down 31 per cent to £1.1m. Bearing the brunt of VAT increases had put pressure on margins. Nevertheless, Blacks had opened six new outlets, bringing the

total to 66. Three more are planned this year.

Capital expenditure would be about £2m for 1991, with heavy emphasis on increasing warehousing space.

The fashion and textiles division - which includes Miss Sam, the ladieswear manufacturer, and S Eker, the cloth finisher - turned in flat profits of £100,000.

S Eker, which reported losses of £299,000 for the whole of last year, was now operating profitably. Blacks aimed to expand Miss Sam's exporting capabilities in the near future, Mr Bentley said.

The board recommended a 10 per cent increase in the dividend to 1.1p. Shares, which have risen steadily in the past year from 42p, closed 6p up yesterday at 109p.

Losses rise at Noble Raredon

By Andrew Bolger

NOBLE RAREDON, the holiday and photographic company which asked for its shares to be suspended a year ago in the wake of the collapse of Polly Peck International, yesterday reported higher interim losses.

The company is controlled by Mrs Bilge Nevzat, younger sister of Mr Asil Nadir, chairman of Polly Peck. The shares were suspended at 28p after two of its banks reduced or

withdrew banking facilities following Polly Peck's demise.

Mrs Nevzat's company increased pre-tax losses from £970,000 to £1.57m in the six months to April 30, in spite of a rise in turnover from £4.17m to £5.19m, and is passing the interim dividend (0.1p).

In February the company said it planned to sell Elite Optics, its UK overhead projector business, in an effort to avoid the fate of Polly Peck.

However, it yesterday admitted that strenuous efforts to make disposals and reduce financial constraints had not yet been concluded.

The company blamed its losses on the effect of the Gulf war on tourism to Turkey and northern Cyprus. It had continued to trade at a much reduced rate of loss in the second half, but hoped to return to a satisfactory level of profitability next year.

Sunleigh sells subsidiary as losses rise

By Michio Nakamoto

THE RESTRUCTURING of Sunleigh from a diversified industrial and leisure products group to one more focused on leisure is continuing with the sale of its electrical terminator and connector subsidiary Sunleigh Electrical Developments.

SED is being sold for a maximum cash consideration of £1.62m, of which £1.27m is being paid immediately.

At the year end, Sunleigh - with debts of £4.5m - was in danger of exceeding its £4.5m banking facilities. It has since reduced debt to about £1.7m with the proceeds of a £3.8m placing and rights issue

launched in March.

The proceeds of the disposal will now eliminate the group's borrowings and leave it in a cash positive position.

Mr Sandy Saunders, the company director whose services were enlisted almost exactly a year ago to turn the struggling group round, said Sunleigh could now proceed with acquisitions in consumer product areas.

Sunleigh is also taking measures to tighten internal financial controls, as it reported an increased pre-tax loss at the interim of £1.34m compared with a loss of £191,000.

The taxable figure for the six months to June 30 came on turnover of £5.34m (£11.12m) and a trading profit of £175,000 (£1.07m). Business in the first half was hit by the lack of Japanese and American tourists due to the Gulf War, Mr Saunders said.

Family components in Powe Kaddy golf caddies were another major cause of lower turnover. This failure led to exceptional costs of £1.02m (£853,000).

There is no interim dividend. The group expects to see a small results improvement in the second half.

Davenport Knitwear up by £10,000

A cut in the operating loss helped Davenport Knitwear to increase pre-tax profit by £10,000 to £214,000 in the first half of 1991.

The company, which manufactures knitted fabrics and garments, reduced its trading loss to £36,000 (£89,000) as turnover showed a small improvement to £3.33m (£3.16m). Investment income contributed £308,000 (£320,000). Earnings per share were 8.18p (7.56p).

For the whole of 1990 the group made a pre-tax profit of £944,000, with the trading balance contributing £238,000.

Powerscreen buys main rival

By Peggy Hollinger

POWERSCREEN International, the Northern Ireland based maker of screening and crushing equipment, is buying its main competitor, Finlay Engineering, for cash and shares worth £4.4m.

The acquisition is Powerscreen's second in four months and takes the group into the Australian and Far Eastern markets for the first time.

In July, Powerscreen paid £3.2m cash for Mathore, which manufactures telescopic handling equipment - a type of forklift truck.

Mr Shay McKeown, chief executive, said the acquisition

of Finlay, which makes hard rock crushers and washing and waste reclaiming equipment, would enhance group earnings.

"This underpins the distribution part of Powerscreen's business and removes a large degree of competition," he said.

Mr McKeown added that Finlay's hard rock quarrying expertise would reduce Powerscreen's research and development needs.

In the year to December 31, Finlay reported pre-tax profits of £536,133 on turnover of £12m. Mr McKeown said he expected Powerscreen's mar-

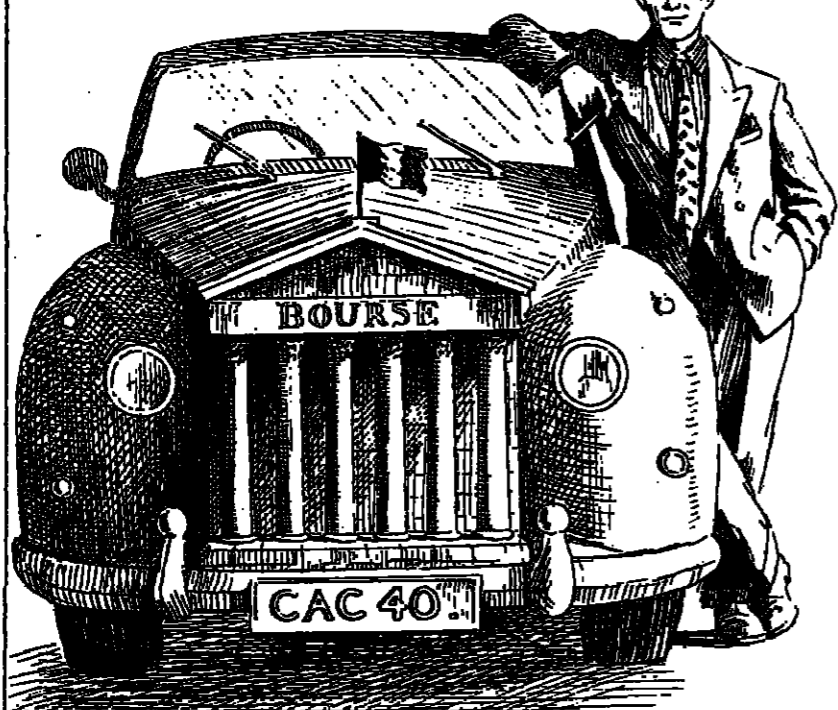
keting strength to raise Finlay's contribution next year to at least £750,000.

Powerscreen, which reports its interim results next Tuesday, is expected to unveil pre-tax profits of about £10m, compared with £9m last year.

It is paying £1.2m cash and issuing 1.5m new shares, which will not be eligible for the forthcoming interim dividend.

Powerscreen shares closed down 2p yesterday at 213p. Powerscreen, which in recent years has pursued a policy of nil gearing, will make the cash payment from existing balances.

BEAT THE FRENCH AT THEIR OWN GAME



The CAC 40 index option (PXL) kept its first place above all other European index options in terms of premiums traded: more than FF 13 billion of premium exchanged during the first nine months of 1991 (13 063 069 000 to be precise).

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* Contract specifications:
Underlying asset: CAC 40 Index.
Size: FF 200 x Index (PXL) / FF 40 x Index (PXL). Type: American (PXL) / European (PXL).
Trading months: 5 consecutive month-term months and one quarterly (PXL) / March, September up to 2 years (PXL).

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29th October, 1991

COMMODITIES AND AGRICULTURE

Oil prices slip as winter prospects disturb market

By Deborah Hargreaves

OIL PRICES slipped yesterday, the market remaining unsettled about the outlook for winter weather and possible disruption in supplies of Soviet gas oil.

A busy market in London pushed the price of North Sea Brent crude oil for December delivery down by 50 cents a barrel to \$21.55 a barrel yesterday. The move came only a fortnight after the market hit a post Gulf war high with prices a dollar higher.

This was just a hiccup, the market is yet to come, said Mr Peter Gignoux, director of international energy at Lehman Brothers in London.

Many market observers believe traders have pushed crude prices too high in anti-

ipation of supply problems in the next three months. If the winter is not abnormally cold, or gas oil deliveries from the Soviet Union continue without disruption, the market could be set for a fall of several dollars.

Mr Peter Gignoux at Cambridge Energy Research Associates, the consulting group in Paris, believes that prices will drop in the next few weeks unless there is an unexpected crisis. By the end of November, normal seasonal weather should allow some firming in price to a level for Brent of \$22.75 to \$23.50 a barrel.

Although prices have slipped in the last couple of days, output from the Organisation of Petroleum Exporting Countries

continues without cuts. Opec is producing 29.3m barrels a day (b/d), according to CERA, owing to a slow rise in Kuwaiti production which is now at 300,000 to 350,000 b/d.

In the US, Purvin & Gertz, the US market analysis group, believes that Opec is taking an optimistic view of the fourth quarter and high output will lead to some companies building stocks during the period.

This is unusual for the final quarter of the year when companies normally draw on stored oil.

Mr Ken Miller, senior consultant at Purvin & Gertz, says this could mean weak prices early next year and in the second quarter when companies start to offload these stocks.

Alberta to hold public hearings on pipeline proposals

By Bernard Simon in Toronto

THE ALBERTA government plans to hold public hearings on two competing proposals to build a natural gas pipeline to California in the hope that one of the groups will be persuaded to back away from its plan.

Mr Rick Orman, the province's energy minister, said the Alberta Energy Resources Conservation Board will not make any specific ruling on the Pacific Gas Transmission (PGT) and Altamont projects, whose members include some of North America's leading utilities and gas producers and distributors.

But Mr Orman said that the hearings would facilitate "a market-based" decision. "To date, we have had a beauty contest between two projects," he said. "What we need is a mechanism where people know what the facts are, not what the dreams are."

Alberta is concerned that a go-ahead for both projects will further weaken gas producers' bargaining power in the key west coast market, and dent its royalty income from the natural gas industry.

Producers are already being squeezed by over-supply, and there is little hope of the market being in sellers' favour when the projects come on stream in late 1993. Authorities in California, in particular, have made no secret of playing producers off against each other to secure the best prices.

PGT, a subsidiary of the San Francisco-based utility Pacific Gas & Electric Co. is proposing a US\$1.5bn expansion of its existing 1,300 km pipeline through British Columbia and then southward through Washington and Oregon. The PGT pipe would carry 755m cubic feet of gas a day to California and another 148m cubic feet to other parts of the Pacific North West.

The second proposal is sponsored by Altamont Gas Transmission Co of Houston, whose shareholders are Teneeco Gas, Amoco Canada Petroleum and Montana Power.

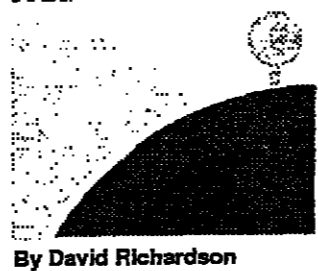
Altamont is planning a US\$750m pipeline with a capacity of 719m cu ft a day. It would follow a 990km route through Montana to a large gas distribution junction in Wyoming from where gas would be pumped to southern California through an existing pipeline.

The fate of each project is likely to depend on its ability to find outside financing. Both groups hope to persuade lenders that they have signed shipping contracts for their full capacity. But some of the contracts appear to be more water-tight than others.

Refined arguments go to Brussels

Growers hope the UK will take a tough line on sugar beet quotas

FARMER'S VIEWPOINT



By David Richardson

Sugar beet has evoked mixed emotions among farmers since it was introduced to the UK about 80 years ago. From the start the beet was a reliable earner among a host of volatile crops and prices, but it involved the hardest work in the worst weather conditions and harvesting it through the winter caused all kinds of damage to the structure of the soil.

Today, much of the drudgery has been eliminated by mechanisation but the system of quotas under which it is grown, and which continues to make sugar beet an attractive financial proposition, gives rise to some dissatisfaction at farm and national level.

On the farm, the main part of the problem is really to do with the weather. Three dry summers in succession has meant that some growers, especially on light, sandy land, have grown smaller crops than usual and failed to fulfil their quotas.

The contract growers have with the monopoly buyer, British Sugar, states that if they are unable to produce the tonnage of sugar stated on the document their entitlement for future years may be reduced. Moreover, the calculation is based on what has been produced in the best two of the previous three years.

The three-year drought has caught some farmers out. They could not believe that the shortage of rainfall would go on for three seasons and did not plant extra hectares of sugar beet to allow for the possibility.

In addition, potential shortages of domestic and industrial water supplies caused the National Rivers Authority to halt crop irrigation in some areas, thereby inhibiting the farmers' ability to maximise yields and achieve quota tonnage, which the growers in question claim they would have done.

Needless to say, this minority of disadvantaged growers claim theirs is a special case and that they should be absolved from responsibility

and allowed to retain their full quota.

The National Farmers Union, which has been drawn into the situation against its will, appears to be sitting on the fence. After all, it has many members who would like more sugar quota if there were the possibility of a redistribution, so the union may well take the view that there would be little mileage in fighting battles for people who have manifestly failed to comply with their contracts.

British Sugar seems even less likely to want to agree to the terms of its contracts. It is in the company's interests to have sugar beet grown by the best farmers on the best soils. That way, it can keep down the prices it pays to farmers without too many of them claiming to be inadequately rewarded.

The company says it has too much sugar beet contracted to it in any case and takes every opportunity, such as the change of ownership of a farm, to chop-off a chunk of quota from the in-grower.

It seems highly probable, therefore, that growers who have failed to reach their quotas will have to accept their punishment and put it down to the beginning of the greenhouse effect or something like it. Indeed, some insiders take the view that if this is the start of a significant change in the climate, it may be that farmers who can produce economic yields only with the addition of artificially-applied water should not be attempting to grow sugar beet.

However, there is another

side to the story. For within the EC the UK sugar beet industry is uniquely disadvantaged and this, too, is because of the system of quotas.

Each EC member state has a gross sugar quota entitlement to distribute among its farmers. This consists of a basic, so-called A quota, which is intended to cover annual usage, together with an additional and smaller B quota for strategic reserve and to guard against a shortfall in the event of unfavourable weather.

All A and B sugar has its price guaranteed by the EC, the B at 37% per cent less than the A. Any excess production above A and B is designated C sugar and must be exported on to world markets at much lower world prices without guarantees or export subsidies.

In practice, most of the B sugar, which across the EC amounts to about 2m tonnes annually, is also exported, its lower price helping to finance the operation. Indeed, this subsidised trade is one of the subjects of dumping accusations by GATT negotiators and others seeking to liberalise world trade.

The UK beet industry, however, has a total A and B sugar quota of 1.14m tonnes which amounts to just 49 per cent of domestic consumption. Moreover, while continuing to export B sugar, this country, under the terms of the quota arrangements, is forced to co-fund those who do.

Worst offenders in order of importance are France, Germany, Belgium, Holland and Denmark. Indeed, only Portugal and the UK within the EC are deficit sugar producers.

There is a historical reason for this situation in the UK. When Britain joined the EC in 1973, the accession agreement included the rights of Commonwealth countries to continue to supply raw cane sugar to the refineries in this country. These rights are still observed and account for much of 51 per cent of the sugar consumed in Britain each year not produced from beet. There has never

been any attempt by the UK sugar beet industry to interfere with these arrangements.

The UK industry does, however, object to the way EC quota is allocated. Essentially, this appears to be done on the basis of past production instead of previous consumption. In 1981, for instance, the UK sugar quota was cut by 13.7 per cent because it had failed, because of drought, to fulfil its quota during the late 1970s.

With negotiations imminent for a further agreement to come into force on July 1, 1993, it seems inevitable that the UK will be bidding for a bigger national quota. There are solid reasons why it should be granted.

Because of its structure and single company management, the UK processing industry claims to be the most efficient in Europe. Similarly, the large average size of farms in the eastern counties and the West Midlands, where most of Britain's sugar beet are grown, allow growers economies of scale denied in most other EC countries.

Arguably even more important, however, is the fact that consumption of sugar in the UK has risen by some 70,000 tonnes over the last decade as a result of increased usage by food manufacturers and by industry. Furthermore, this trend is forecast to continue and to amount to at least 100,000 tonnes by the year 2000.

If the UK sugar quota is not increased, therefore, this country may be forced to import sugar from other EC countries at a cost, at present levels, of about \$40m per year. The current trade deficit for food is \$28m, \$4m of that being with northern European nations.

The alternative which some big food processors are said to be considering, would be for them to move their operations to Europe where raw materials are in more than adequate supply. The balance of payments implications of that would be even more horrendous.

There is every reason, therefore, for Britain to be tough over beet quotas in Brussels.

Impala Platinum dispute grows and hits all group's operations

By Philip Gawith in Johannesburg

THE labour unrest which has plagued Impala Platinum's activities in Bophuthatswana since July worsened yesterday with production at all the group's operations affected.

There was no production at the Wilbeesfontein North mine, which management closed last week, nor at Bafokeng North. Production at the Wilbeesfontein South and Bafokeng South mines, and the mineral processing plant, has been affected by high levels of absenteeism.

Gemina, Impala's parent grouping, said several buildings and vehicles had been set alight early yesterday and the general manager of Bafokeng South had been assaulted. The

statement said there was widespread intimidation among the workforce.

Gemina said the latest incidents were probably linked to the dismissal of 75 workers over the weekend following disciplinary hearings.

The hearings were related to their conduct during a sit-in at Wilbeesfontein North earlier this month when supervisory personnel were prevented from leaving underground areas.

Impala's problems centre around the fact that the South African based National Union of Mineworkers (NUM), to whom about 60 per cent of Impala's workers belong, is not allowed to organise in the non-

inally independent homeland of Bophuthatswana. Last week Mr Michael McMahon, managing director of Impala, said the Wilbeesfontein North mine would remain closed until agreement could be reached with worker representatives on what constituted "normal working practices".

He acknowledged that Impala had bought platinum on the futures market to ensure that it could meet its contractual commitments when the current disruptions worked their way through the production process to cause shortages. Impala is the world's second largest platinum producer, with annual output of about 1.1m ounces.

Production cut at Highland Valley

By Bernard Simon in Toronto

A LABOUR dispute has cut production by about 25 per cent at the Highland Valley copper mine in British Columbia, and a full work stoppage is possible later this week.

Talks on a new labour contract with representatives of the mine's 1,150 workers broke down late last week.

An official of Rio Algom, which has a 33 per cent stake in the mine, said yesterday that "we're fairly close to a settlement, but we're having a problem getting the union to endorse the offer to its membership."

The mine's mill normally has a throughput of 136,000

tonnes of ore a day. The work slowdown has affected mainly mining and stripping operations, and the mill is drawing on stockpiled ore.

Management has offered to make a further concession on the key issues of wages, pensions and severance pay, but only on condition that the United Steelworkers of America's bargaining committee recommends the new contract to its members.

Workers earlier voted by an overwhelming majority for strike action. Under British Columbia law, notice of 72 hours is required for a strike or lockout.

Aur seeks to develop Louvicourt

By Robert Gibbins in Montreal

AUR Resources, a small Quebec mining company backed by two big resource groups, is negotiating finance to develop the Louvicourt copper-zinc-gold deposit in the north west at a cost of nearly C\$400m.

Aur has been working on the deposit, near Val d'Or in north west Quebec, for nearly ten years. Its president, James Gill, said the full feasibility study just received indicated the new mine would generate revenues of C\$2bn over a 14-year life, based on present reserves.

The second proposal is sponsored by Altamont Gas Transmission Co of Houston, whose shareholders are Teneeco Gas, Amoco Canada Petroleum and Montana Power.

Altamont is planning a US\$750m pipeline with a capacity of 719m cu ft a day. It would follow a 990km route through Montana to a large gas distribution junction in Wyoming from where gas would be pumped to southern California through an existing pipeline.

The fate of each project is likely to depend on its ability to find outside financing. Both groups hope to persuade lenders that they have signed shipping contracts for their full capacity. But some of the contracts appear to be more water-tight than others.

Oppenheimer warns on viability of potential gold mines

By Kenneth Gooding, Mining Correspondent

MOST OF South Africa's potential gold mines would not be viable unless the price of the precious metal was about US\$800 a troy ounce, said Mr Harry Oppenheimer, former chairman of the Anglo American Corporation of South Africa, yesterday.

Gold closed in London last night at \$358.35 an ounce.

The four lowest-cost potential South African gold mines would need a price of \$400, Mr Oppenheimer suggested during a seminar in London organised by S G Warburg, the financial services organisation.

With gold at \$350 an ounce, nine of South Africa's operating mines, producing a total of 70 tonnes of gold a year, were not covering their working costs.

"Under present conditions the South African annual gold output (600 tonnes) could fall by somewhere between 100 and 200 tonnes, that is by possibly as much as 30 per cent, between now and the year 2000," he added.

South Africa needed about 10 new mines during this decade to maintain its present gold output into the next century. It

was estimated that already there were 20,000 tonnes of gold in the industry's exploration targets, enough for 15 new mines. But it would cost nearly \$20bn in today's money to bring them into production.

Mr Oppenheimer was optimistic that the gold price would rise to a level which would enable South Africa to continue producing about 500 tonnes a year until the year 2015 and beyond.

"All things come to an end, even a depressed gold price and gold, barbarous relic though it may be, has a long

and resilient history," he said.

Copper was emerging from the recession in better shape than other traded metals because stocks were lower than those of other metals and represented only about four to five weeks consumption, Mr Douglas Yearley, chairman of Phelps Dodge Corporation, the largest US copper producer, told the conference.

At the bottom of the previous recession in early 1983 copper stocks stood at more than 13 weeks of consumption, pushing prices to the 60 cents a lb level.

WORLD COMMODITIES PRICES

MARKET REPORT

Aluminium closed just \$1 above the day's low on the LME yesterday. Traders said the lack of follow-through to Friday's rise on news of Hoogovens production cut saw prices move lower on the pre-market under commission house selling and liquidation. Sell stops were later triggered when the price for three-month metal moved down through \$1,200 a tonne. Although some support appeared below this level, the market generally remained under pressure up to the close. Fundamentally the market still needs more production cuts, or a demand surge, before a change in sentiment is seen, traders said. Nickel closed marginally higher

London Markets

SPOT MARKETS
Crude oil (per barrel FOB) +0.05
Dubai \$18.35-4.52 -0.75
Brent Blend (diesel) \$21.55-2.00 -0.20
Brent Blend (gas) \$21.55-1.80 -0.15
WTI (11 pm est) \$21.55-2.20 -0.15
Oil products
NWE prompt delivery per tonne CIF +0.05
Gas oil (US No. 3) \$23.40-4.00 +1
Gas oil (US No. 3) \$21.21-7 -1
Heavy Fuel Oil \$21.21-1.5
Naphtha (US No. 3) \$21.21-1.5
Petroleum Argus Estimates
Other +0.05
Gold (per troy oz) \$328.85 -3.30
Silver (per troy oz) \$407.50 -4.00
Platinum (per troy oz) \$350.75 -3.25
Palladium (per troy oz) \$355.25 -0.75
Copper (US Producer) \$110.50
Lead (US Producer) \$110.50
Tin (Kuala Lumpur market) \$14.90
Zinc (New York) \$26.50
Zinc (US Prime Western) \$22.00
Cattle (live weight) \$105.30p
Sheep (sheep weight) \$112.50p
Pigs (live weight) \$13.50p
London daily sugar (raw) \$226.91 -3.9
London daily sugar (white) \$226.91 -4.0
Tase and Liffe export price \$243.5 -1.5
Barley (English lead) \$117
Maize (US No. 3 yellow) \$141
Wheat (US Dark Northern) \$117
Rubber (DCC) \$33.50
Rubber (JMW) \$32.50
Rubber (RSS No 1 Nov) \$228.5m -0.5
Cocoa oil (Philippines) \$569p
Palm Oil (Malaysia) \$355p
Cocoa (Philippines) \$572.5p
Soybeans (US) \$11.50
Cotton "A" index \$7.25p
Wool "A" index \$15p

C = tonnes unless otherwise stated. p=per cent, q=quintal, r=ringing, g=Nov-Jan 1-Sep/Dec, n=Nov-Dec, y=Dec-Jan, z=Dec-Jan/Nov. Wheat Commission average futures prices. * change from a week ago. † London physical market. ‡ CIP Rotterdam. § Bullion market. || = Malaysian contract. ¶ Correction for Oct 24 Silver (per troy oz) \$415.5

in quiet trade. Dealers said the market had become hesitant since news late last week that Soviet producer Norilsk was considering withdrawing from the export market due to low prices. London cocoa prices recovered earlier losses to close with small gains. Traders were baffled by the sharp upward revision in third quarter UK cocoa grindings, and said it had had minimal effect on prices. According to the revised statistics, UK grindings in the third quarter rose 42.6 per cent on the same quarter last year. The final figure was adjusted to 41,953 tonnes from 32,851 tonnes released earlier this month. Compiled from Reuters

SUGAR - London FOX

Raw	Close	Previous	High/Low
Dec	196.20	200.00	195.00
Mar	194.80	195.00	193.00 190.00
May	194.80	190.00	193.00 190.00
Aug	198.20	195.00	194.00
Nov	198.20	195.00	194.00
White	Close	Previous	High/Low
Dec	288.0	285.0	284.0 283.0
Mar	283.5	280.0	282.5 278.0
May	282.7	279.2	278.0 275.0
Aug	283.9	280.2	280.0 280.0
Nov	283.9	280.2	280.0 280.0
Turnover: Raw 129 (199) lots of 50 tonnes			
White 149 (278)			
Paris: White (FFr per tonne): Dec 1989.65, Mar 1987.45			

CRUDE OIL - IPE

Raw	Close	Previous	High/Low
Dec	21.70	21.79	21.59 21.57
Jan	21.80	21.88	21.68 21.58
Feb	21.35	21.34	21.20 21.18
Mar	21.00	21.05	21.00
Apr	20.75	20.75	20.75
May	20.75	20.75	20.75
Turnover: Raw 129 (199) lots of 50 tonnes			
White 149 (278)			
Paris: White (FFr per tonne): Dec 1989.65, Mar 1987.45			

GAS OIL - IPE

Raw	Close	Previous	High/Low
Dec	21.70	21.79	21.59 21.57
Jan	21.80	21.88	21.68 21.58
Feb	21.35	21.34	21.20 21.18
Mar	21.00	21.05	21.00
Apr	20.75	20.75	20.75
May	20.75	20.75	20.75
Turnover: Raw 129 (199) lots of 50 tonnes			
White 149 (278)			
Paris: White (FFr per tonne): Dec 1989.65, Mar 1987.45			

COCOA - London FOX

Close	Previous	High/Low	
Dec	748	747	748 740
Mar	748	754	750 750
May	812	807	812 804
Jul	835	830	835 828
Sep	859	853	857 852
Dec	885	879	881 876
Mar	910	902	904 899
May	925	921	917
Jul	939	935	933
Sep	955	956	954 949
Turnover: 6203 (512) lots of 10 tonnes			
ICO indicator prices (S\$ per tonne), daily price for Oct. 25: 925.87 (929.39) 10 day average for Oct. 25: 942.77 (948.19)			

COFFEE - London FOX

Close	Previous	High/Low	
Nov	529	537	530 523
Jan	550	565	552 544
Mar	556	564	550 523
Turnover: 1853 (2238) lots of 5 tonnes			
ICO indicator prices (US cents per pound) for Oct. 25: Comp. daily \$3.70 (4.06) 15 day average \$3.09 (4.06)			

POTATOES - London FOX

Close	Previous	High/Low	
Mar	133.0	132.0	
Apr	127.9	130.4	129.5 127.1
May	147.8	149.0	148.0
Turnover: 130 (103) lots of 20 tonnes.			

SOYABEANS - London FOX

Close	Previous	High/Low	
Dec	131.50	132.00	131.50
Jan	135.00	136.00	136.00
Mar	129.50	129.50	129.50
Turnover: 75 (17) lots of 20 tonnes.			

FRIEDRICH - London FOX

Close	Previous	High/Low	
Nov	1095	1700	1700
Jan	1718	1720	1718 1711
Apr	1730	1720	1720 1711
Oct	1070	1068	1060 1060
Turnover: 47 (117)			

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● Latest Share Prices are available on FT Cityline, call 0836 43. + four digit code. Calls charged at 36p/minute, cheap rate and 49p/minute at all other times. To obtain a free Share Code Booklet call 071-925-2129.

MINES—Contd

REGIONAL & IRISH STOCKS

● Current Unit Trust prices are available on FT Cityline, call 0838 430000. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-825-2128

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	Jan 84	Feb 84	Mar 84	Apr 84	May 84	Jun 84	Jul 84	Aug 84	Sep 84	Oct 84	Nov 84	Dec 84	Jan 85	Feb 85	Mar 85	Apr 85	May 85	Jun 85	Jul 85	Aug 85	Sep 85	Oct 85	Nov 85	Dec 85	Jan 86	Feb 86	Mar 86	Apr 86	May 86	Jun 86	Jul 86	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Aug 87	Sep 87	Oct 87	Nov 87	Dec 87	Jan 88	Feb 88	Mar 88	Apr 88	May 88	Jun 88	Jul 88	Aug 88	Sep 88	Oct 88	Nov 88	Dec 88	Jan 89	Feb 89	Mar 89	Apr 89	May 89	Jun 89	Jul 89	Aug 89	Sep 89	Oct 89	Nov 89	Dec 89	Jan 90	Feb 90	Mar 90	Apr 90	May 90	Jun 90	Jul 90	Aug 90	Sep 90	Oct 90	Nov 90	Dec 90	Jan 91	Feb 91	Mar 91	Apr 91	May 91	Jun 91	Jul 91	Aug 91	Sep 91	Oct 91	Nov 91	Dec 91	Jan 92	Feb 92	Mar 92	Apr 92	May 92	Jun 92	Jul 92	Aug 92	Sep 92	Oct 92	Nov 92	Dec 92	Jan 93	Feb 93	Mar 93	Apr 93	May 93	Jun 93	Jul 93	Aug 93	Sep 93	Oct 93	Nov 93	Dec 93	Jan 94	Feb 94	Mar 94	Apr 94	May 94	Jun 94	Jul 94	Aug 94	Sep 94	Oct 94	Nov 94	Dec 94	Jan 95	Feb 95	Mar 95	Apr 95	May 95	Jun 95	Jul 95	Aug 95	Sep 95	Oct 95	Nov 95	Dec 95	Jan 96	Feb 96	Mar 96	Apr 96	May 96	Jun 96	Jul 96	Aug 96	Sep 96	Oct 96	Nov 96	Dec 96	Jan 97	Feb 97	Mar 97	Apr 97	May 97	Jun 97	Jul 97	Aug 97	Sep 97	Oct 97	Nov 97	Dec 97	Jan 98	Feb 98	Mar 98	Apr 98	May 98	Jun 98	Jul 98	Aug 98	Sep 98	Oct 98	Nov 98	Dec 98	Jan 99	Feb 99	Mar 99	Apr 99	May 99	Jun 99	Jul 99	Aug 99	Sep 99	Oct 99	Nov 99	Dec 99	Jan 00	Feb 00	Mar 00	Apr 00	May 00	Jun 00	Jul 00	Aug 00	Sep 00	Oct 00	Nov 00	Dec 00	Jan 01	Feb 01	Mar 01	Apr 01	May 01	Jun 01	Jul 01	Aug 01	Sep 01	Oct 01	Nov 01	Dec 01	Jan 02	Feb 02	Mar 02	Apr 02	May 02	Jun 02	Jul 02	Aug 02	Sep 02	Oct 02	Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04	Oct 04	Nov 04	Dec 04	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	Oct 24	Nov 24	Dec 24	Jan 25	Feb 25	Mar 25	Apr 25	May 25	Jun 25	Jul 25	Aug 25	Sep 25	Oct 25	Nov 25	Dec 25	Jan 26	Feb 26	Mar 26	Apr 26	May 26	Jun 26	Jul 26	Aug 26	Sep 26	Oct 26	Nov 26	Dec 26	Jan 27	Feb 27	Mar 27	Apr 27	May 27	Jun 27	Jul 27	Aug 27	Sep 27	Oct 27	Nov 27	Dec 27	Jan 28	Feb 28	Mar 28	Apr 28	May 28	Jun 28	Jul 28	Aug 28	Sep 28	Oct 28	Nov 28	Dec 28	Jan 29	Feb 29	Mar 29	Apr 29	May 29	Jun 29	Jul 29	Aug 29	Sep 29	Oct 29	Nov 29	Dec 29	Jan 30	Feb 30	Mar 30	Apr 30	May 30	Jun 30	Jul 30	Aug 30	Sep 30	Oct 30	Nov 30	Dec 30	Jan 31	Feb 31	Mar 31	Apr 31	May 31	Jun 31	Jul 31	Aug 31	Sep 31	Oct 31	Nov 31	Dec 31	Jan 32	Feb 32	Mar 32	Apr 32	May 32	Jun 32	Jul 32	Aug 32	Sep 32	Oct 32	Nov 32	Dec 32	Jan 33	Feb 33	Mar 33	Apr 33	May 33	Jun 33	Jul 33	Aug 33	Sep 33	Oct 33	Nov 33	Dec 33	Jan 34	Feb 34	Mar 34	Apr 34	May 34	Jun 34	Jul 34	Aug 34	Sep 34	Oct 34	Nov 34	Dec 34	Jan 35	Feb 35	Mar 35	Apr 35	May 35	Jun 35	Jul 35	Aug 35	Sep 35	Oct 35	Nov 35	Dec 35	Jan 36	Feb 36	Mar 36	Apr 36	May 36	Jun 36	Jul 36	Aug 36	Sep 36	Oct 36	Nov 36	Dec 36	Jan 37	Feb 37	Mar 37	Apr 37	May 37	Jun 37	Jul 37	Aug 37	Sep 37	Oct 37	Nov 37	Dec 37	Jan 38	Feb 38	Mar 38	Apr 38	May 38	Jun 38	Jul 38	Aug 38	Sep 38	Oct 38	Nov 38	Dec 38	Jan 39	Feb 39	Mar 39	Apr 39	May 39	Jun 39	Jul 39	Aug 39	Sep 39	Oct 39	Nov 39	Dec 39	Jan 40	Feb 40	Mar 40	Apr 40	May 40	Jun 40	Jul 40	Aug 40	Sep 40	Oct 40	Nov 40	Dec 40	Jan 41	Feb 41	Mar 41	Apr 41	May 41	Jun 41	Jul 41	Aug 41	Sep 41	Oct 41	Nov 41	Dec 41	Jan 42	Feb 42	Mar 42	Apr 42	May 42	Jun 42	Jul 42	Aug 42	Sep 42	Oct 42	Nov 42	Dec 42	Jan 43	Feb 43	Mar 43	Apr 43	May 43	Jun 43	Jul 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55	Jul 55	Aug 55	Sep 55	Oct 55	Nov 55	Dec 55	Jan 56	Feb 56	Mar 56	Apr 56	May 56	Jun 56	Jul 56	Aug 56	Sep 56	Oct 56	Nov 56	Dec 56	Jan 57	Feb 57	Mar 57	Apr 57	May 57	Jun 57	Jul 57	Aug 57	Sep 57	Oct 57	Nov 57	Dec 57	Jan 58	Feb 58	Mar 58	Apr 58	May 58	Jun 58	Jul 58	Aug 58	Sep 58	Oct 58	Nov 58	Dec 58	Jan 59	Feb 59	Mar 59	Apr 59	May 59	Jun 59	Jul 59	Aug 59	Sep 59	Oct 59	Nov 59	Dec 59	Jan 60	Feb 60	Mar 60	Apr 60	May 60	Jun 60	Jul 60	Aug 60	Sep 60	Oct 60	Nov 60	Dec 60	Jan 61	Feb 61	Mar 61	Apr 61	May 61	Jun 61	Jul 61	Aug 61	Sep 61	Oct 61	Nov 61	Dec 61	Jan 62	Feb 62	Mar 62	Apr 62	May 62	Jun 62	Jul 62	Aug 62	Sep 62	Oct 62	Nov 62	Dec 62	Jan 63	Feb 63	Mar 63	Apr 63	May 63	Jun 63	Jul 63	Aug 63	Sep 63	Oct 63	Nov 63	Dec 63	Jan 64	Feb 64	Mar 64	Apr 64	May 64	Jun 64	Jul 64	Aug 64	Sep 64	Oct 64	Nov 64	Dec 64	Jan 65	Feb 65	Mar 65	Apr 65	May 65	Jun 65	Jul 65	Aug 65	Sep 65	Oct 65	Nov 65	Dec 65	Jan 66	Feb 66	Mar 66	Apr 66	May 66	Jun 66	Jul 66	Aug 66	Sep 66	Oct 66	Nov 66	Dec 66	Jan 67	Feb 67	Mar 67	Apr 67	May 67	Jun 67	Jul 67	Aug 67	Sep 67	Oct 67	Nov 67	Dec 67	Jan 68	Feb 68	Mar 68	Apr 68	May 68	Jun 68	Jul 68	Aug 68	Sep 68	Oct 68	Nov 68	Dec 68	Jan 69	Feb 69	Mar 69	Apr 69	May 69	Jun 69	Jul 69	Aug 69	Sep 69	Oct 69	Nov 69	Dec 69	Jan 70	Feb 70	Mar 70	Apr 70	May 70	Jun 70	Jul 70	Aug 70	Sep 70	Oct 70	Nov 70	Dec 70	Jan 71	Feb 71	Mar 71	Apr 71	May 71	Jun 71	Jul 71	Aug 71	Sep 71	Oct 71	Nov 71	Dec 71	Jan 72	Feb 72	Mar 72	Apr 72	May 72	Jun 72	Jul 72	Aug 72	Sep 72	Oct 72	Nov 72	Dec 72	Jan 73	Feb 73	Mar 73	Apr 73	May 73	Jun 73	Jul 73	Aug 73	Sep 73	Oct 73	Nov 73	Dec 73	Jan 74	Feb 74	Mar 74	Apr 74	May 74	Jun 74	Jul 74	Aug 74	Sep 74	Oct 74	Nov 74	Dec 74	Jan 75	Feb 75	Mar 75	Apr 75	May 75	Jun 75	Jul 75	Aug 75	Sep 75	Oct 75	Nov 75	Dec 75	Jan 76	Feb 76	Mar 76	Apr 76	May 76	Jun 76	Jul 76	Aug 76	Sep 76	Oct 76	Nov 76	Dec 76	Jan 77	Feb 77	Mar 77	Apr 77	May 77	Jun 77	Jul 77	Aug 77	Sep 77	Oct 77	Nov 77	Dec 77	Jan 78	Feb 78	Mar 78	Apr 78	May 78	Jun 78	Jul 78	Aug 78	Sep 78	Oct 78	Nov 78	Dec 78	Jan 79	Feb 79	Mar 79	Apr 79	May 79	Jun 79	Jul 79	Aug 79	Sep 79	Oct 79	Nov 79	Dec 79	Jan 80	Feb 80	Mar 80	Apr 80	May 80	Jun 80	Jul 80	Aug 80	Sep 80	Oct 80	Nov 80	Dec 80	Jan 81	Feb 81	Mar 81	Apr 81	May 81	Jun 81	Jul 81	Aug 81	Sep 81	Oct 81	Nov 81	Dec 81	Jan 82	Feb 82	Mar 82	Apr 82	May 82	Jun 82	Jul 82	Aug 82	Sep 82	Oct 82	Nov 82	Dec 82	Jan 83	Feb 83	Mar 83	Apr 83	May 83	Jun 83	Jul 83	Aug 83	Sep 83	Oct 83	Nov 83	Dec 83	Jan 84	Feb 84	Mar 84	Apr 84	May 84	Jun 84	Jul 84	Aug 84	Sep 84	Oct 84	Nov 84	Dec 84	Jan 85	Feb 85	Mar 85	Apr 85	May 85	Jun 85	Jul 85	Aug 85	Sep 85	Oct 85	Nov 85	Dec 85	Jan 86	Feb 86	Mar 86	Apr 86	May 86	Jun 86	Jul 86	Aug 86	Sep 86	Oct 86	Nov 86	Dec 86	Jan 87	Feb 87	Mar 87	Apr 87	May 87	Jun 87	Jul 87	Aug 87	Sep 87	Oct 87	Nov 87	Dec 87	Jan 88	Feb 88	Mar 88	Apr 88	May 88	Jun 88	Jul 88	Aug 88	Sep 88	Oct 88	Nov 88	Dec 88	Jan 89	Feb 89	Mar 89	Apr 89	May 89	Jun 89	Jul 89	Aug 89	Sep 89	Oct 89	Nov 89	Dec 89	Jan 90	Feb 90	Mar 90	Apr 90	May 90	Jun 90	Jul 90	Aug 90	Sep 90	Oct 90	Nov 90	Dec 90	Jan 91	Feb 91	Mar 91	Apr 91	May 91	Jun 91	Jul 91	Aug 91	Sep 91	Oct 91	Nov 91	Dec 91	Jan 92	Feb 92	Mar 92	Apr 92	May 92	Jun 92	Jul 92	Aug 92	Sep 92	Oct 92	Nov 92	Dec 92	Jan 93	Feb 93	Mar 93	Apr 93	May 93	Jun 93	Jul 93	Aug 93	Sep 93	Oct 93	Nov 93	Dec 93	Jan 94	Feb 94	Mar 94	Apr 94	May 94	Jun 94	Jul 94	Aug 94	Sep 94	Oct 94	Nov 94	Dec 94	Jan 95	Feb 95	Mar 95	Apr 95	May 95	Jun 95	Jul 95	Aug 95	Sep 95	Oct 95	Nov 95	Dec 95	Jan 96	Feb 96	Mar 96	Apr 96	May 96	Jun 96	Jul 96	Aug 96	Sep 96	Oct 96	Nov 96	Dec 96	Jan 97	Feb 97	Mar 97	Apr 97	May 97	Jun 97	Jul 97	Aug 97	Sep 97	Oct 97	Nov 97	Dec 97	Jan 98	Feb 98	Mar 98	Apr 98	
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● Current Unit Trust prices are available on FT Cityline, call 0836 430000. Calls charged at 36p/minute day rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2128

~~10/11/3~~

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هَكَذَا مِنْ الْأَجَلِ

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MARKET FUNDS

NOTEPAD

SWORD

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

FT SURVEY

هكذا آمن الأهل

4:00 pm prices October 28

Stock	DV	P	100s	High	Low	Chng	Stock	DV	P	100s	High	Low	Chng	Stock	DV	P	100s	High	Low	Chng	Stock	DV	P	100s	High	Low	Chng
AT&T	0.46	28	189	32	31 1/4	52	+	+	+	+	+	+	+	Am E	0.10	10	100	10	10	10	Am F	0.10	10	100	10	10	10
ACC Corp	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am G	0.10	10	100	10	10	10	Am H	0.10	10	100	10	10	10
Acc	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am I	0.10	10	100	10	10	10	Am J	0.10	10	100	10	10	10
Accum	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am K	0.10	10	100	10	10	10	Am L	0.10	10	100	10	10	10
Acorn Co	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am M	0.10	10	100	10	10	10	Am N	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am O	0.10	10	100	10	10	10	Am P	0.10	10	100	10	10	10
ADC Tech	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am Q	0.10	10	100	10	10	10	Am R	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am S	0.10	10	100	10	10	10	Am T	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am U	0.10	10	100	10	10	10	Am V	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am W	0.10	10	100	10	10	10	Am X	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am Y	0.10	10	100	10	10	10	Am Z	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am AA	0.10	10	100	10	10	10	Am BB	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am CC	0.10	10	100	10	10	10	Am DD	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am EE	0.10	10	100	10	10	10	Am FF	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am GG	0.10	10	100	10	10	10	Am HH	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am II	0.10	10	100	10	10	10	Am JJ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am KK	0.10	10	100	10	10	10	Am LL	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am MM	0.10	10	100	10	10	10	Am NN	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am OO	0.10	10	100	10	10	10	Am PP	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am QQ	0.10	10	100	10	10	10	Am RR	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am SS	0.10	10	100	10	10	10	Am TT	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am UU	0.10	10	100	10	10	10	Am VV	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am WW	0.10	10	100	10	10	10	Am XX	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am YY	0.10	10	100	10	10	10	Am ZZ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am AAA	0.10	10	100	10	10	10	Am BBB	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am CCC	0.10	10	100	10	10	10	Am DDD	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am EEE	0.10	10	100	10	10	10	Am FFF	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am GGG	0.10	10	100	10	10	10	Am HHH	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am III	0.10	10	100	10	10	10	Am JJJ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am KKK	0.10	10	100	10	10	10	Am LLL	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am MMM	0.10	10	100	10	10	10	Am NNN	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am OOO	0.10	10	100	10	10	10	Am PPP	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am QQQ	0.10	10	100	10	10	10	Am RRR	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am SSS	0.10	10	100	10	10	10	Am TTT	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am UUU	0.10	10	100	10	10	10	Am VVV	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am WWW	0.10	10	100	10	10	10	Am XXX	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am YYY	0.10	10	100	10	10	10	Am ZZZ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am AAAA	0.10	10	100	10	10	10	Am BBBB	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am CCCC	0.10	10	100	10	10	10	Am DDDD	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am EEEE	0.10	10	100	10	10	10	Am FFFF	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am GGGG	0.10	10	100	10	10	10	Am HHHH	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am IIII	0.10	10	100	10	10	10	Am JJJJ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am KKKK	0.10	10	100	10	10	10	Am LLLL	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am MMMM	0.10	10	100	10	10	10	Am NNNN	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am OOOO	0.10	10	100	10	10	10	Am PPPP	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am QQQQ	0.10	10	100	10	10	10	Am RRRR	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am SSSS	0.10	10	100	10	10	10	Am TTTT	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am UUUU	0.10	10	100	10	10	10	Am VVVV	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am WWWW	0.10	10	100	10	10	10	Am XXXX	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am YYYYY	0.10	10	100	10	10	10	Am ZZZZ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am AAAAA	0.10	10	100	10	10	10	Am BBBBB	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am CCCCC	0.10	10	100	10	10	10	Am DDDDD	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am EEEEE	0.10	10	100	10	10	10	Am FFFFF	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am GGGGG	0.10	10	100	10	10	10	Am HHHHH	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am IIIII	0.10	10	100	10	10	10	Am JJJJJ	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am KKKKK	0.10	10	100	10	10	10	Am LLLLL	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am MMMMM	0.10	10	100	10	10	10	Am NNNNN	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am OOOOO	0.10	10	100	10	10	10	Am PPPPP	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am QQQQQ	0.10	10	100	10	10	10	Am RRRRR	0.10	10	100	10	10	10
Adco	0.18	28	152	13	12 1/4	10	+	+	+	+	+	+	+	Am SSSSS	0.10	10	100	10	10	10	Am TTTTT	0.10	10	100	10	10	10
Adco	0.18</																										

4:00 pm prices October 28

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AND INVESTMENT
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Dublin 2
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TABLE 1

Data source: Chief Executives in Europe 1990

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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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103.

AMERICA

Dow recovers part of ground lost last week

Wall Street

A FEELING that the stock market might have been over-sold during last week's 70-point Dow retreat helped share prices post good gains yesterday, writes Patrick Harverson in New York.

In the close the Dow Jones Industrial Average was 40.70 ahead at 3,045.62. The more broadly based Standard & Poor's 500 was also markedly higher, up 5.32 at 389.52, while the Nasdaq composite of over-the-counter stocks advanced 4.28 to 539.41. New York SE volume came to 180m shares.

The market opened in surprisingly confident mood. Some observers argued that the previous week's declines had been prompted by the realisation that a satisfactory upturn in economic growth and corporate profits was at least another quarter away. But others claimed that the selling was a natural reaction to the big gains of the preceding six days, when the Dow climbed by 100 points. Yesterday's rally seemed to support the latter argument that recent losses represented a pause for consolidation.

Boeing put on \$4 to \$49.97 after the aerospace group reported net income for the third quarter of \$601m, up from the \$378m earned at the same stage last year. Although the company warned of continued losses from space and defence business in the final quarter, it expected the two divisions to return to profitability next year. Boeing also announced a \$28m order for commercial aircraft from Japan Airlines.

Elsewhere in the defence and aerospace sector, McDonnell Douglas rose 5 1/4 to \$34.40 on reports that it intends to seek enough orders from airlines to begin building a new jumbo jet next year.

Lockheed climbed 5 1/4 to \$45 after revealing plans for a joint effort with Rockwell International to win a US Navy multi-billion dollar jet fighter project. Rockwell stock drew little comfort from the news, easing 1 1/4 to \$26 1/4. Lockheed shares

were also helped by news that the group has been asked to help Northrop overcome problems with its B-2 bomber.

Compaq fell 1 1/4 to \$29 on 2m shares traded as the market continued to react to last week's ousting of Mr Rod Canion, president, chief executive and one of the founders of the computer group. Mr Canion was dismissed by the board two days after Compaq unveiled the first quarterly loss in its nine-year history.

Kodak slipped 3/4 to \$45 1/4 in busy trading after reporting that its losses had narrowed to \$118m in the third quarter from a \$266m shortfall a year ago. The loss was the result of a \$435m pre-tax restructuring charge, and Kodak warned that it would need another charge in the fourth quarter.

Comerica forged ahead \$5 to \$47.40 after the banking group reported net income for the third quarter of \$401m, up from the \$378m earned at the same stage last year. Although the company warned of continued losses from space and defence business in the final quarter, it expected the two divisions to return to profitability next year.

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EUROPE

Daimler rights issue gives Frankfurt early jitters

DAIMLER-BENZ continued to sway trading in Frankfurt, dragging it lower yesterday, although futures-linked buying helped the German bourse to recoup the early losses. Late-closing markets were lifted by a firm opening on Wall Street, writes Our Markets Staff.

FRANKFURT fell prey to its all-too-familiar weakness of reacting to old pieces of company news. Yesterday's re-run came in the form of Daimler's proposed rights issue, which was first aired several months ago.

The DAX index fell to the day's low of 1,568.75 on reports that Daimler was considering a DM2bn rights issue in the second half of next year. But the index recovered on a late burst of futures-related buying to close at the day's high of 1,576.81, up 4.48.

By contrast, the FAZ index, calculated at mid-session, was 1.12 lower at 647.59. Volume was estimated at near 100m shares, with DAX 3.8bn as institutions remained sidelined.

Daimler fell as low as DM68.50 before recovering to close DM72.40 at DM674.50. Analysts said that Daimler had signalled its intention to have a rights issue in early summer, partly to restore its equity ratio in the wake of the Cap Gemini Sogeti purchase and partly to finance its capital

expenditure programme. Yesterday's talk was disregarded by analysts at UBS Phillips and Drew and County NatWest, who have both changed their recommendation on Daimler from hold to buy in the last week.

Daimler, which held its last cash call in November 1989, is expected to raise DM2bn in a one-for-10 rights issue priced at DM500 a share towards the end of 1992, by which time its shareholders would have received the previous year's dividend to pay for the new shares.

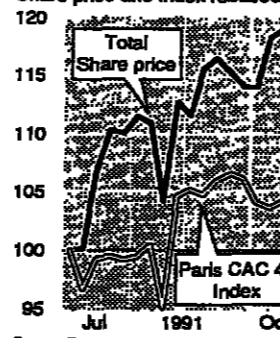
Elsewhere, Allianz rose DM28 to DM248 in futures-related buying and RWE fell DM2 to DM381.50, in spite of comments from its chairman that operating profits would rise in the year to June 30, 1992.

PARIS moved gently upwards throughout the day, finishing at its day's high after a restructuring Suez dropped 2.92 to 318.27 in turn-over estimated to be less than Friday's 1.33bn.

Generali, the insurer, was one of the few risers of the day, on reports that Mediobanca was buying the stock. Generali rose 1.95 or 1.2 per cent to 1,265.19.

In telecoms, Sip succumbed to profit-taking after its recent gains, losing 1.22 or 1.7 per cent to 1,265.19.

Share price and index rebased



Source: Datastream

Total's ADRs made a successful debut in New York on Friday.

Rif Aquitaine, which had been suffering in recent weeks from a switch by US investors into Total, jumped FF13.90 or 3.5 per cent to FF409.90 in volume of 269,500 shares, after rising FF13.50 on Friday.

Suez, the holding company, aroused some interest late in the day on the news that three of its investment company units had been suspended for news of a restructuring. Suez dropped FF9 to FF319, while Penhoët was suspended at FF420, down FF1, Parthena Investissement at FF360, off FF10, and Comiphos at FF320, up FF18.

FT-SE Eurotrack 100 - Oct 28

Hourly changes					
Open	10 pm	11 am	Noon	1 pm	2 pm
1091.93	1093.26	1094.73	1093.97	1095.68	1095.95
Day's High 1097.39			Day's Low 1091.83		
Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	
1091.25	1093.69	1100.82	1097.32	1097.89	

Base value 1000 (28/10/91)

A news conference has been called for 15.30 GMT today. Suez was rumoured to be considering a merger of the company, or an exchange of holdings between them.

Eurotunnel, which had been weak recently on its dispute with the consortium building the Channel tunnel, recovered FF1.40 or 3.5 per cent to FF409.90, but volume was light at 483,100 shares.

MILAN fell further on fears that the settlement of the October account would be delayed by financial problems at some of the companies. The Comit index dropped 2.92 to 318.27 in turn-over estimated to be less than Friday's 1.33bn.

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In telecoms, Sip succumbed to profit-taking after its recent gains, losing 1.22 or 1.7 per cent to 1,265.19.

to 1.1.253. But several brokers still favoured the stock on a long-term view. James Capel changed its recommendation on Sip from hold to buy at the end of last week, in view of the strong indications that Sip would win a tariff increase next year and the high yield on the share.

MADRID attracted bargain-hunters, who lifted the general index by 1.94 to 265.98 in steady turnover of about Pta10bn.

Among the most active stocks, Iberdrola rose Pta18 to Pta719 in volume of 2.38m shares and Telefonica gained Pta45 to Pta1,260 in 1.15m shares.

ZURICH closed higher on late buying inspired by Wall Street's firm opening and rises on other bourses. The Credit Suisse index gained 2.3 to 456.9 in moderate trading.

Leu Holding bidders added SF20 to SF1,750. On Friday, Bank Leu said that business in

the third quarter had been satisfactory.

AMSTERDAM was lifted by a firmer dollar and a strong showing in London. The CBS Tendency index added 0.5 to 90.0 but volume was light. Turnover was low at F138.4m. London's rise lifted Dutch-listed stocks, with Royal Dutch and Unilever adding F1.10 and F1.60, to F154.50 and F165.90 respectively.

Other winners included Elsevier, which rose 70 cents to F12.80, and Abnol, which put on 80 cents to F182.80. But Hunter Douglas shed F1.28 to F170.

BRUSSELS was enlivened by trading in Groupe Bruxelles Lambert, which rose 70 cents to F12.80, and a few other blue chips, as the market finished steady. The Bel20 index eased 0.06 to 1,104.31 in light turnover of BFR45m, but GBL gained BFR3 to BFR3,385 before news of its first-half profits, due today.

OSLO edged higher in moderate business. The all-share index added 2.49 to 471.95 in turnover of NKR189m. Heca's free shares gained NKR9 and the pharmaceutical company is due to announce third-quarter figures today.

STOCKHOLM's Affärsvärlden General index added 1.8 to 985.8 as turnover dropped to SEK247m from Friday's SEK45m.

ASIA PACIFIC

Nikkei stays in narrow range before bank meeting

Tokyo

SHARE PRICES stayed in a narrow range in subdued trading yesterday, as investors kept away ahead of today's Bank of Japan branch managers' meeting. Nikkei's Nikkei average closed 4.71 down at 24,901.72, after reaching a day's high of 25,023.52 and a low of 24,864.09.

The market had risen at the opening on arbitrage-linked buying, but the lack of fresh money restricted activity, and volume fell to 250m shares from 330m.

Advances led declines by 491 to 465, with 183 issues unchanged. The Topix index of all first section stocks shed 4.06 to 1,575.57 and in London, the ISE/Nikkei 50 index edged up 3.45 to 1,417.84.

Owing to the lack of other trading incentives, investors focused on speculative issues.

Honshu Paper, the day's most active stock, rose Y43 to Y941. Ishihara Sangyo, a vitamin producer, moved ahead Y26 to Y588 on active buying by speculators responding to last week's reports that the company's researchers, together with a university research group, had developed an advanced photocatalyst.

Marix Line, the shipping company, added Y48 at Y578 on a revised earnings forecast. Buying spread to other stocks in the sector, Kawasaki Kisen advancing Y17 to Y618.

Precision equipment makers lost ground on poor earnings results for the first half to September. Sharp slipped Y20 to Y1,400 on projections that the yen's rise would erode earnings for the whole year, and Canon fell Y50 to Y1,440 on forecasts of weak export orders.

Tokai Chemical Industries weakened Y40 to Y1,540 on small-lot selling, investors being discouraged by the company's forecast for the current year of a 2 per cent decline in pre-tax profits.

In Osaka, the OSE average dipped 60.74 to 27,199.03 in volume of 22.6m shares. Shimano, the bicycle parts maker, retreated Y100 to Y3,090 on profit-taking. The issue had risen from Y2,500 last week on short-covering by speculators.

Nippon Densan, the Kyoto-based precision equipment maker, finished unchanged at Y5,580 after falling to a year's low of Y5,540 initially in reaction to the company's projection of a drop in annual pre-tax profits of 70 per cent to Y550m.

TAIWAN moved forward 3 per cent on its return from a three-day holiday, as the recent political tension eased. The weighted index rose 127.96 to close at the day's high of 4,381.69 in turnover of T\$2.1m, up from T\$1.55m.

HONG KONG showed caution awaiting next week's news of anti-speculator measures. The Hang Seng index gained 16.70 to 3,988.60 but turnover decreased to HK\$968m from HK\$1.33bn.

SEOUL fell on institutional selling of financial shares. The composite index closed 3.72 lower at 693.09 in turnover of Won235bn, after Won378bn.

Small electric and electronics shares were boosted by the government's announcement at the weekend that it would provide loans at concessionary rates to small companies in financial difficulties. Yong Tae Electronics climbed by its daily maximum of Won400 to Won2,700 and Joong Won Electronics by its limit of Won200 to Won2,400.

WONKONG eased on worries about the possible return from exile of Mrs Imelda Marcos, the former First Lady. The composite index dipped 1.08 to 1,007.09 in light trading.

JOHANNESBURG was mixed to easier in late trading. The all-share index fell 3 to 3,460 and the gold index lost 8 to 1,187, while the industrial index was up 4 to 4,161. Vast Reef shed \$4 to \$207 while De Beers was steady at \$91.60.

World held back by fall on Wall Street

MARKETS IN PERSPECTIVE

	% change in local currency				% change in US \$			
	1 Week	4 Weeks	1 Year	Start of 1991	1 Week	4 Weeks	1 Year	Start of 1991
Austria	-1.04	-9.65	-15.24	-6.05	-7.34	-17.83		
Belgium	+0.59	+2.71	+2.74	+10.43	+10.12	-2.34		
Denmark	+1.80	+1.08	+9.60	+23.77	+22.48	+8.60		
Finland	-0.95	+0.80	-2.94	-5.88	-7.04	-17.57		
France	-1.23	-2.29	+12.38	+10.64	+12.34	+4.96		
Germany	+1.15	-2.24	-0.03	+7.28	+6.31	-5.73		
Ireland	-1.15	-1.68	+6.63	+18.74	+16.56	+5.14		
Italy	-2.02	-3.81	-13.41	-1.35	-1.28	-12.45		
Netherlands	-0.87	+0.54	+14.47	+17.67	+16.76	+3.55		
Norway	-1.63	-5.70	-13.84	+2.99	+2.50	-9.11		
Spain	-0.35	-2.86	+11.10	+20.21	+21.11	+7.40		
Sweden	+0.82	-2.43	+11.59	+25.15	+28.10	+13.68		
Switzerland	-1.36	+1.73	+15.35	+22.48	+16.37	+4.98		
UK	-3.01	-3.29	+20.74	+17.64	+17.64	+4.33		
EUROPE	-1.55	-2.30	+11.57	+15.16	+14.58	+1.59		
Australia	+1.00	+4.99	+21.31	+29.45	+48.78	+31.94		
Hong Kong	-1.15	+0.14	+30.38	+33.52	+51.42	+34.27		
Japan	-0.48	+2.90	+3.24	+9.85	+27.64	+13.18		
Malaysia	+3.35	+0.81	-3.66	-3.26	+7.20	-4.93		
New Zealand	+1.82	+4.28	+1.51	+16.32	+4.28	+1.51		
Singapore	+3.57	+4.49	+16.33	+21.22	+40.12	+24.26		
Canada	-1.55	+1.54	+7.05	+3.25	+20.05	+6.47		
USA	-2.11	-0.49	+24.94	+32.02	+32.02	+17.08		
Mexico	-0.61	+9.38	+149.34	+151.46	+155.96	+127.00		
South Africa	+2.38	+6.84	+28.09	+28.03	+57.86	+39.81		
WORLD INDEX	-1.26	+0.44	+13.69	+14.54	+26.54	+12.21		

† Based on October 28th 1991. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities.

By Antonia Sharpe

THE WORLD was held back by a disappointing performance on Wall Street last week as generally pleasing third-quarter results prompted investors to take their profits.

According to the FT-Actuaries indices, the world index declined 1.3 per cent in local currency terms, held back by a 2.1 per cent drop in the US. Without the US, the world index would have fallen only 0.5 per cent.

In its international asset briefing, S.G. Warburg Securities says that Anglo Saxon markets have been far more efficient at downgrading earnings than their continental European counterparts. "The US and UK third-quarter and interim results, respectively, have for the first time since the recession started to come in above expectations (albeit modestly)," the report says.

The broker warns, however, that the driving force behind earnings in the US has been on the cost rather than the revenue side and that new capacity

in some industries is coming on stream faster than growth is picking up. Furthermore, the US equity market's upside is limited by a rise of almost 30 basis points in bond yields, low liquidity and the fact that foreign investors are no longer underweight.

The world's gains were concentrated in the Pacific Rim, with New Zealand, Singapore and Malaysia climbing by more than 3 per cent.

New Zealand's rise reflected an 8.4 per cent jump in Fletcher Challenge, which accounts for about a third of the market, and a fall in the domestic dollar.

Both Singapore and Malaysia were lifted by renewed buying interest from overseas. This was especially welcome for Malaysia, which is languishing 3 per cent below its 1991 starting level in local currency terms, compared with a 21 per cent rise for Singapore.

Hoare Govett says in its weekly report that, without any fundamental support for a rally and with the Budget due on Friday, the Malaysian market is expected to return to a cautious stance.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 28 1991							FRIDAY OCTOBER 25 1991							DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Dpt	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago	
Figures in parentheses show number of lines of stock																	
Australia (69)	155.62	-0.1	135.44	129.99	138.27	131.82	+0.1	4.82	155.76	134.93	129.38	137.79	131.78	158.25	112.74	124.94	
Austria (20)	156.57	-0.1	136.27	130.78	138.11	139.00	-2.7	2.05	161.58	139.97	134.21	142.94	142.79	222.37	154.82	197.97	
Belgium (47)	128.34	+0.6	111.70	107.20	114.03	111.25	-0.2	3.33	129.12	111.85	107.24	114.22	111.45	151.20	118.04	138.04	
Canada (114)	128.48	+0.9	121.36	116.51	123.32	113.62	+0.7	3.29	138.44	119.52	114.39	122.45	115.42	142.27	130.29	128.94	
Denmark (37)	251.24	+0.5	218.65	209.88	223.23	226.30	+0.0	1.57	252.83	218.84	206.84	223.48	226.28	270.55	217.74	244.25	
Finland (15)	65.04	+0.0	74.01	71.04	75.96	74.02	+0.2	3.29	65.02	73.85	70.62	73.21	73.87	125.15	93.59	101.51	
France (108)	138.54	+0.4	121.88	115.80	123.17	126.84	+0.5	3.80	138.67	117.47	122.15	122.70	119.11	138.04	115.24	136.06	
Germany (59)	104.70	-0.7	91.13	87.47	93.03	93.03	-0.3	2.43	105.49	91.39	87.63	93.31	93.31	125.35	115.15	125.35	
Hong Kong (55)	184.11	+0.3	142.83	137.09	145.82	163.82	+0.5	4.45	183.66	141.68	135.85	144.89	182.85	189.98	119.82	124.85	
Ireland (18)	155.30	-0.5	135.16	129.73	137.98	138.74	+0.0	2.19	155.09	135.22	129.68	138.08	138.34	182.46	132.88	162.22	
Italy (71)	95.96	+0.1	82.56	77.76	80.36	80.36	+0.1	3.28	95.79	80.65	77.85	80.65	80.65	102.33	84.76	85.23	
Japan (174)	140.09	-0.8	121.90	117.17	117.00	117.00	-0.3	0.72	141.22	122.33	117.30	117.30	117.30	141.70	130.41	130.41	
Malaysia (58)	203.40	+0.9	177.02	169.90	180.72	215.78	+1.1	2.86	201.88	174.70	167.51	177.83	213.48	247.78	188.16	201.88	
Mexico (16)	1329.17	+0.2	1158.80	1110.31	1180.98	4375.72	+0.2	1.20	1328.73	1148.28	1101.98	1172.03	4987.88	1336.04	934.45	546.44	
Netherlands (31)	156.56	+0.1	136.11	130.78	138.11	139.00	-2.7	2.05	161.58	139.97	134.21	142.94	142.79	222.37	154.82	197.97	
New Zealand (14)	47.88	-0.5	41.50	39.83	42.37	45.61	-0.0	6.37	47.84	41.53	39.62	42.41	45.61	94.46	41.18	51.77	
Norway (30)	187.18	-0.8	162.91	156.36	168.32	170.16	+1.3	1.52	185.67	160.84	154.22	164.25	167.90	223.24	178.88	217.74	
Portugal (38)	156.56	+0.1	136.11	130.78	138.11	139.00	-2.7	2.05	161.58	139.97	134.21	142.94	142.79	222.37	154.82	197.97	
Spain (53)	157.07	+0.3	131.32	124.43	127.78	134.36	+0.1	3.28	157.07	131.32	124.43	127.78	134.36	157.07	131.32	124.43	
Sweden (25)	151.87	+0.6	127.00	120.76	134.76	123.35	+1.0	4.44	150.70	130.54	125.17	131.31	122.10	171.15	143.43	149.43	
Switzerland (53)	181.06	-0.1	157.58	151.26	160.87	165.89	+0.1	2.87	181.28	157.02	150.59	160.35	166.18	204.12	146.80	175.84	
Taiwan (59)	33.44	+0.1	27.95	26.33	27.50	27.50	+0.8	2.22	33.57	27.80	26.10	27.50	27.50	100.16	122.17	100.16	
United Kingdom (240)	174.73	+0.1	152.09	145.98	155.29	152.09	+0.1	4.67	172.84	149.72	143.54	152.88	148.72	187.44	150.27	171.00	
USA (526)	158.18	+0.3	137.68	132.40	140.55	158.18	+1.3	3.08	158.05	135.20	129.64	138.07	158.06	181.01	125.51	125.51	
Australia (826)	137.18	+0.4	119.40	114.80	121.90	121.23	+0.8	3.96	136.67	118.38	113.32	120.90	120.19	151.52	125.50	136.54	
Canada (107)	178.98	-0.2	156.82	150.32	159.88	157.83	+0.3	2.05	180.31	156.19	149.77	159.89	157.10	200.81	155.55	186.19	
Denmark (17)	139.61	-0.3	121.51	116.51	123.32	113.62	+0.7	3.29	138.44	119.52	114.39	122.45	115.42	142.27	130.29	128.94	
France (Pacific) (154)	139.61	-0.3	121.51	116.51	123.32	113.62	+0.7	3.29	140.03	121.30	116.30	123.97	120.11	147.86	121.91	147.86	
Germany (540)	156.94	+1.3	136.59	131.11	139.47	155.18	+1.3	3.07	154.91	134.19	128.68	137.06	151.31	159.68	125.91	121.91	
Hong Kong (14)	156.94	+1.3	136.59	131.11	139.47	155.18	+1.3	3.07	154.91	134.19	128.68	137.06	151.31	159.68	125.91	121.91	
Japan (Pacific Ex. Japan) (244)	146.28	+0.1	127.31	122.21	126.99	130.00	+0.3	4.25	146.14	126.80	121.41	129.29	126.80	159.68	103.56	126.80	
Malaysia (Ex. UK) (1739)	141.88	+0.3	123.22	118.27	125.80	121.72	+0.2	2.27	141.93	122.95	117.80	125.56	121.45	148.18	122.77	125.56	
Netherlands (Ex. UK) (221)	143.37	+0.2	124.78	119.27	140.40	131.24	+0.5	2.23	143.04	123.91	118.91	126.54	130.69	144.73	127.07	120.06	
Portugal (Ex. UK) (1787)	150.73	+0.9	131.18	125.92	133.85	141.98	+1.1	3.24	149.38	129.41	124.10	128.15	140.49	158.25	126.89	128.15	
Switzerland (Ex. UK) (221)	146.12	+0.3	127.12	122.06	129.84	132.23	+0.6	2.53	145.65	126.17	120.90	126.85	132.40	149.41	123.28	132.40	

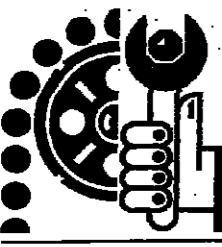
ITALIAN INDUSTRY

SECTION III

Tuesday October 29 1991



Machine tools, cars and computers: three facets of Italian industry, whose most distinctive feature is the split between the large private groups, represented above, and the predominance of small companies



The promise of higher growth among OECD countries in 1992 may not be a sufficient cushion for

Italy — burdened by a budget deficit, high inflation, labour market rigidities and an antiquated banking system — to recover from recession, writes Robert Graham

Deep-rooted weaknesses

TALK OF recession has silenced nearly a decade of optimism among Italian industrialists. The much-prized resilience of Italian industry no longer seems sufficient to prevent a decline in output. Since the middle of 1980, industrial production has been on a downward trend and shows no clear sign of change. Industrial growth is expected to be well under 1 per cent this year, the lowest rate since Italy's last recession ended in 1983. Orders are falling and stocks

are rising. Temporary lay-offs covered by government payments, a significant indicator of the health of larger companies, grew by 20 per cent in the first five months of the year. The big names resorting to these measures include Fiat and Olivetti in the private sector and EniChem, the state chemical group and Alenia, the aviation company, among the public holdings. Were it not for Italy's protective employment laws, the number of jobless would be considerably above the current

10.5 per cent of the workforce. Italy is caught in a recession, albeit mild, at a time when other industrial partners, such as the US and Britain, are just beginning to show signs of recovery. The promise of higher growth in 1992 among the main OECD countries will not necessarily be a sufficient cushion for Italy to recover. This time the performance of healthy companies and, indeed, entire industrial sectors can no longer be insulated from the problems of the Italian economy as a whole. As the OECD noted in its latest country report, Italy "has entered the 1990s with one of the highest EC rates of inflation and unemployment, and levels of public debt and budget deficit". It went on to warn: "These imbalances are mutually reinforcing each other with, in particular, high structural unemployment and core inflation boosting the budget deficit — the former via revenue shortfalls and unemployment-related transfers, and the latter via high interest payments."

The budget deficit is over 10.5 per cent of GDP, and almost all accounted for by debt service. Total debt now exceeds nominal GDP for the first time since 1924 in a peacetime economy. The 1992 budget, tailored to elections which will be held at the latest next May, has made only the most modest correctives. At best, these will ensure the deficit does not deteriorate further. The budget effect on industry will be to squeeze profits further while containing demand and holding back

much-needed new investment. Meanwhile, annual inflation is above 6 per cent, almost double the EC average. Added to this, industry has to cope with excessive rigidities in the labour market and an antiquated banking/financial system charging high interest rates, which together put enormous constraints on competitiveness. Industrial companies' room for manoeuvre has been further reduced as a result of Italy opting to enter the narrow 2.25 per cent margin of fluctuation band of the EC's exchange rate mechanism. These problems have been long accumulating but their weight has only begun to be felt in the past year. And as Italian industry prepares for the impact of the single market after 1992, it will not be enough to predicate survival on the old recipes of hard work and flexibility. Serious structural weaknesses need to be addressed which are rooted deep in the nature of Italian industry. The most distinctive feature of Italian industry has been the predominance of small companies fostering industrial development. Over 59 per cent of the manufacturing workforce is in companies employing under 100 persons. Only 19 per cent are in companies employing over 500 workers. By contrast, the percentages in Britain and Germany are nearly a complete reverse.

Thus on the one hand there are the big stakeholders such as IRI, ENI and Efim and the large private groups Fiat, Olivetti and Ferruzzi (Montedison). State companies account for 15 per cent of all non-agricultural employment in Italy and 25 per cent of fixed investment, while Fiat represents a quarter of Italian stock exchange capitalisation. At the other end of the scale — with little in between — lies a vast agglomeration of small companies, mainly concentrated in the industrialised north. Such a division has meant that big and small companies inhabit almost wholly separate worlds. An equally big divide of communications and culture exists between the state manufacturers and the private sector. The large state groups have always been financially weak because they have been run on political and social criteria, responsible to the political parties in government. The most obvious result of this policy has been the enormous sums pumped into the Mezzogiorno to establish a better balance of wealth and development opportunity. However, the sheer size of the public sector deficit has now obliged the government to reduce its financial commitment to state companies. In this climate only major surgery can improve the financial health of many debt-ridden companies in the IRI and Efim groups.

Pressure of another sort is coming from the EC. The Commission has ceased to be indulgent towards Italian state aid to industry, and its range of subsidies is being subjected to scrutiny. The private sector, too, has to account to Brussels more directly. Fiat is currently having to justify generous state assistance for the establishment of its greenfield automotive plant at Melfi, Basilicata in the south. Coupled with these changes, traditional strengths are beginning to look like weaknesses. For instance, industry has benefited from the loyalty of the domestic market. With few exceptions, Italian industry has located the bulk of its production at home and relied on Italian sales for the bulk of profits. As the barriers come down and choice emerges, this loyalty is being exposed as little more than concealed protectionism. Fiat's share of the car market has fallen over 15 percentage points in five years — even if it retains a 45 per cent hold on domestic car sales. As the Italian economy stagnates industry is also being made aware of the dangers of having too much production and sales dependent upon one market. The success stories of Italian industry have tended to be in traditional sectors and in consumer goods — cars, clothing, consumer electrical goods, shoes and textiles. Yet these are precisely the areas where growth in overall demand is slow and where competition is sharpest from new producers among the Asian newly industrialised countries, EC partners like Portugal or from eastern Europe. Industry needs to be present in faster growing sectors with more advanced technology and higher added value. Throughout the 1980s, Italian industry retained a competitive edge by improving quality and by investing in new production technology. This concealed the increasing drag on competitive-

ness caused by high labour costs and insufficient investment in research. For instance, spending on R&D is only 1.3 per cent of GDP compared with 2.3 per cent in France, 2.5 per cent in the UK and 2.7 per cent in Germany. Although it is heresy to some, within Confindustria, the industrialists' federation, questions are being asked about the wisdom of continued emphasis on small being "beautiful". Cost structures and new challenges of competition require more industrialists to think of a medium-sized company culture. Companies have remained small for complex reasons. But these centre on a desire to keep control within the family and prevent the state interfering with profits. The small industrialists have stuck to slim workforces because labour laws discourage temporary employment and because of entrenched restrictive union practices. This has produced much sub-contracting and/or fragmentation of small plants owned by the same family. The high cost of finance and the difficulty of obtaining medium-term credits militate against large fixed investments. Also, laws imposing punitive value-added tax on mergers act as a disincentive to seek expansion by the latter route. Finally, and perhaps most importantly, small businesses can avoid taxes with relative ease; but once they become medium-sized, they are also more visible. Change is in the air, spurred on by the realisation that, without it, Italy risks the humiliation of becoming a permanent member of the second division in Europe. An important catalyst could be privatisation. The government in the 1992 budget is committed to accelerate the process — not least because of the desperate need to find alternative sources of revenue. But for privatisation to work, the politicians will have to learn not to treat the economy like a fiefdom run for the benefit of friends and party.

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- Gabriel Bowman



Christopher Columbus

This is a tale of a man and a city. Because it's in Genoa, the capital of the Italian Riviera, that Christopher Columbus was born. Now, 500 years after he made history, Italy is welcoming him back home with a world-class celebration. From May 15th to August 15th 1992, Genoa will host the International Specialized Exhibition "Christopher Columbus: ships and the sea". Two

fascinating themes, navigation and the sea, will be presented by many participating countries bringing together technology, ecology and culture into one spectacular vision. But there are more reasons to go to Genoa. The Exhibition will coincide with the rejuvenation of the historical city center, based on a vast project by Genoa-born Renzo Piano, one of the world's leading architects. Investing in the city's future, the restoration will give new life to the Old Harbour docks and warehouses, to which major new permanent facilities will be added. In particular, a number of important international meetings — some of them sponsored by the United Nations — will be held in

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ITALIAN INDUSTRY 2

Robert Graham looks at the country's uncertain progress towards privatisation

Boldness spurred by necessity

The weight of public enterprises in 1987 (Percentage of sectoral total)

	Value added of production	Fixed investment	Employment
Energy, electricity and water	88	87	85
Petroleum industry	54	51	35
Production/distribution	93	91	92
Water purification and distribution	90	95	92
Mining, basic metals and chemicals	15	27	21
Basic metal industry	43	57	52
Non-metallic (mineral products)	4	5	13
Chemicals	10	23	11
Fabricated products	12	9	13
Fabricated metal products	5	4	6
Fabricated machinery and equipment	7	6	7
Electric and electronic equipment	15	17	16
Transportation equipment	58	42	61
Food, textiles, wood, skins, etc	4	3	4
Basic foodstuffs	5	3	6
Sugar, drink, other food & tobacco	15	10	19
Construction	4	10	4
Commerce, hotels and restaurants	4	8	9
Retail trade	9	8	9
Transportation and communication	76	91	81
Railways	87	87	64
Shipping	42	74	64
Other transportation-related activities	47	64	41
Communications	99	100	99
Business services	11	7	12
Total public enterprises	24	47	25

*Sectoral enterprises employing 20 or more

Source: OECD report, September 1991

AFTER MONTHS of indecision, the Andreotti government has decided to press ahead with plans for privatisation embracing both industry and the service sector. The move was announced in September 30, and is more ambitious in scope than had been anticipated.

The previous ban on majority holdings in private hands has been waived and provision has been made for state entities to become publicly-owned companies. The government has been careful not to say in advance which of the state assets will be sold off, in part or in whole, but in theory any company within the three main state industrial groupings - IRI, the state energy company, ENI, the state energy holding - is eligible.

If the government begins to act on this commitment, it would have an important impact on the relationship between the state and the private sector, not just in industry but throughout the econ-

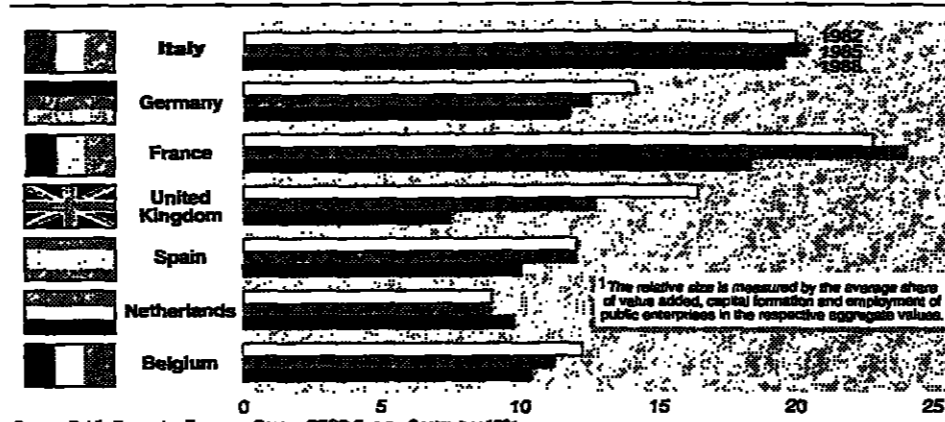
omy. There has been an increasing division between inefficient and largely loss-making state-run industry on the one hand and a dynamic private sector on the other.

Mr Guido Carli, the treasury minister, went so far as to say Italy was now in the process of removing the last vestiges of an anachronistic, socialistic productive structure. His views echoed those of Brussels and the Confederation of Italian Industry (Confindustria), which have been arguing that Italy can no longer afford a debt-ridden politically-manipulated state sector.

However, within the four-party coalition government there are substantial differences of emphasis and philosophy. At the same time, in parliament the privatisation moves have stirred up a storm of protest. Indeed, the political implications of privatisation in depth are so wide-ranging that the parliamentary process is bound to be very slow and awkward.

Already, the government has retreated to the extent of con-

Relative size of public enterprises



Source: Public Enterprises European Center, OECD Survey, September 1991

In the 1992 budget, still to be approved by parliament, some L15,000bn is anticipated from privatisations - a figure almost three times that envisaged in the 1991 budget.

But having fixed this sum, it is not clear whether the proceeds from particular sales, eg from the IRI portfolio, would be returned to IRI or end up in the hands of the Treasury. This is a crucial issue. The state is no longer in a position to hand out funds to public sector companies and is forcing them to look elsewhere.

For a group like IRI with net indebtedness of over L55,000bn, twice its assets, finding funds elsewhere is no easy matter. Thus if the proceeds of the sale of the cement plants and political friends of any company "threatened" with privatisation will fight hard to ensure the move does not prosper.

State involvement in industry has been partially dictated by strategic considerations - the perceived need to control specific sectors to ensure investment levels and price stability. Thus the Italian state has virtual complete control of electricity, natural gas and water supplies, and three-quarters control of transport and communications.

But the state has also acted as a distributor for unwanted unprofitable private sector companies - Montedison's unwanted aluminium operations went to Efim in the 1970s while ENI picked up the

remnants of the private petrochemicals/refining industry.

Equally, the state has sold off assets in the past if there was a willing uncontroversial buyer. Thus Fiat bought Alfa Romeo, the state-owned car maker, from IRI in 1989. ENI sold its textiles interests, Lanerossi, to the Marzotto group, one of the largest private textile concerns in Italy.

The word "strategic" is banded around to cover industries over which the politicians believe the state should not surrender control. But no serious definition has been produced and recently Mr Francesco Nobili, the head of IRI, claimed that the group's foodstuffs holdings could not be sold because they were "strategic". But it is hard to see why the latter should be strategic when cars and textiles are excluded.

More to the point, is the government willing to sell off all or part of a company like Enel, responsible for the country's power supplies? This is a profitable sector viewed with interest by domestic and foreign investors. Indeed, precisely because the electricity industry is a profitable monopoly with price-sensitive tariffs, the politicians are likely to be both cautious and divided.

In the short term, the government is unlikely to sell off majority stakes but will offer minority holdings to the public on the stock exchange. Here the small size of the bourse and its relative lack of sophistication complicate large-scale sell-offs.

But, equally, the private sector industrialists have such little confidence in dealing with the state that they are unlikely to want to be minority shareholders - especially if they are asked to buy a loss-making operation with a large workforce.

LABOUR MARKET

Pay restraint? They don't understand

HIGH LABOUR costs threaten to put Italian industry at a serious competitive disadvantage now that Italy has joined the narrow band of the European Monetary System. Unit labour costs are currently between one third and a half greater than Italy's main competitors in the European Community.

This reflects the interaction between continued high public sector wage increases, an extremely rigid labour market and expensive fringe labour costs. Even though private sector employers have held down pay settlements to lower levels, principally because the narrower exchange rate band has left them with no option, wage costs are undermining their competitiveness.

In general, wages have risen above prices even in periods of restructuring and disinflation throughout the 1980s - 3 per cent for the economy as a whole, 3.5 per cent for the public sector. Last year public sector wages grew 15.7 per cent in nominal terms, 9 per cent in real terms, while this year the increase has dropped to 2.8 per cent nominal for the latter. Despite very modest economic growth in 1991, public sector

A major bone of contention between employers and unions is the scale mobile, whereby wages are indexed to inflation

wages look set to grow at an unacceptably high 2 per cent in real terms.

Aware of the need to take a stand, the government has made a well-intentioned pledge in the 1992 budget to hold public sector pay increases to 4.5 per cent next year in line with inflation. Nevertheless, there is already talk of a nominal 6 per cent increase. Italians have become unaccustomed to see their living standards eroded and pay restraint is not readily understood.

In the past two years wage increases have outstripped productivity. This is perhaps a more ominous development since throughout the past decade industry managed to retain competitiveness in good measure due to productivity increases. In the smaller companies this has been through discreet shedding of labour and technological innovation. The bigger companies have on occasions found themselves

Wage and labour-cost indicators Percentage changes on previous period

	1987	1988	1989	1990
Total economy				
Per capita compensation	8.2	8.8	8.7	10.4
Contractual hourly wage rate	6.9	7.2	6.8	7.8
Industry (excluding construction)				
Per capita compensation	7.6	7.9	9.2	8.4
Contractual hourly wage rate	6.6	6.0	6.6	6.8
Unit labour costs	3.4	2.5	6.3	7.5
Trade services				
Per capita compensation	7.8	7.7	9.1	8.7
Contractual hourly wage rate	6.1	6.2	6.0	6.4
General government				
Per capita compensation	9.4	10.8	7.6	15.4
Contractual hourly wage rate	6.1	10.2	8.0	11.3
Manufacturing industries				
Productivity	5.0	5.9	2.7	0.8
Unit labour costs	2.8	1.6	5.2	7.6
Value added deflator at factor costs	3.4	4.2	5.3	3.0
Profit per unit of output	0.6	2.2	-1.0	-4.6

Source: ISTAT and Ministry of the Budget and Economic Planning

less flexible, unless willing to pump into large sums of money.

Added to this, industry's social security contributions have risen. As a result, Confindustria estimates that unit labour costs will have risen 17 per cent in the two years 1990-91. The confederation also estimates in its latest report that the return on capital has been slashed by a third in the past four years.

A major bone of contention between employers and the unions (and a government afraid of antagonising the unions) continues to be Italy's residual adherence to the *scala mobile*. This is the mechanism whereby wages are indexed to inflation. Although it has been substantially watered down, the principle remains and the unions are reluctant to forgo it.

In a country with a well-organised trades union movement accustomed to negotiate centralised sectoral wage agreements, adherence to the *scala mobile* distorts the labour market, impinges on the ability of small and medium-sized companies to foot wage bills and encourages the underground or black economy.

Centralised bargaining also distorts the regional labour market. The unions have fought hard to raise wages in the poorer south to equality with the richer north. This has been achieved with at present only a 2 per cent officially recognised differential in hourly wages. However, productivity in the south is widely seen to be some 30 per cent less than in the north. The

south unfortunately happens to be the area where the worst unemployment is concentrated - in part explained by the rigid hire-and-fire laws which militate against temporary employment in an economy that depends upon seasonal labour and the services.

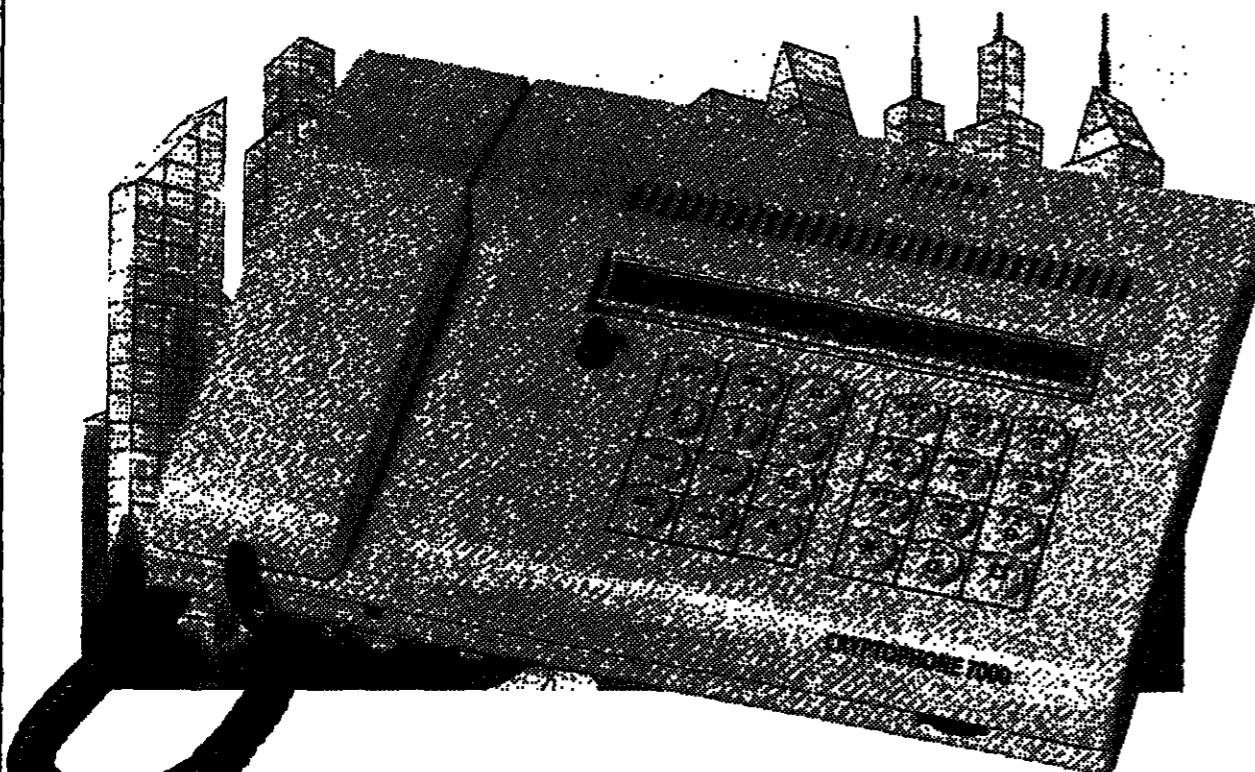
The three main trade union confederations maintain they are willing to discuss the issue of labour costs, recognising the need for change. But they find themselves in a chicken-and-egg situation. Before they accept to make sacrifices on such issues as the *scala mobile* or job mobility, they want to see the employers making some reciprocal gesture. The latter insist that the recession, combined with high labour costs, has eroded profitability. So the industrialists say nothing can be done until the unions first agree to change their ways - and the government reduces the public sector deficit.

As a footnote, the employers are not entirely consistent. The system of government-aided lay-offs, the so-called *cassa integrazione*, has considerably helped the balance sheets of companies which need to restructure.

In the first five months of this year, 153m unit hours have been covered by this government scheme, which permits lay-offs of up to two years, with the state paying the bulk of the wages. A sizeable proportion of the recipients are workers in the private sector.

Robert Graham

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FINANCE

Need for funds becomes more urgent

THE FIGHT for finance has seldom been seen as a decisive constraint on Italian industry. But as the recession becomes more evident this year, some indications are emerging that the need for funds is becoming a more serious concern for industrialists.

Traditionally, small and medium-sized private sector companies, often viewed as the backbone of the Italian economy, have used cash flow to finance their growth. With no outside shareholders to keep happy, family owners have ploughed back profits into the business, using bank credits only to top up internally-generated funds when necessary.

Such requirements are often seasonal, as in the agricultural and food industries, or in fashion and clothing, where purchases of fabrics and other raw materials need to be concentrated at certain times of the year.

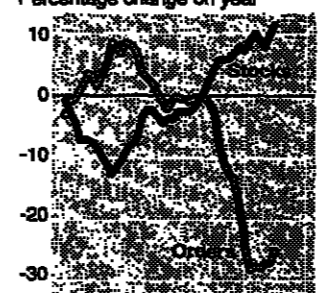
For smaller companies, bank credit otherwise tends to be earmarked for special projects, such as a new factory or a takeover when cash flow is insufficient. And even then, a visit to the bank manager is probably the exception rather than the rule.

The avoidance of high gearing also applies to many of Italy's biggest private sector companies. The reasons stem partly from native conservatism, which is seen in relatively cautious growth strategies and guarded approach towards acquisitions, compared with their Anglo-Saxon counterparts.

Moreover, some leading public sector groups, such as Fiat, have also been able to benefit from unusually cheap financing thanks to their relationship with Mediobanca, the powerful Milan-based merchant bank. Mediobanca has won a reputation for its innovative financing strategies for big clients - which often happen to be among its shareholders. One regular technique is for the bank to capitalise on its high standing in the credit markets to issue bonds specifically on

Stocks and orders

Percentage change on year



Source: ISTAT

behalf of top industrial clients.

State-owned companies, concentrated in IRI, ENI and EFIM holding groups, have also had few capital constraints in the past. Funding has either come from central government, or via independent borrowing on the international capital markets either at parent company or subsidiary level. There can be few international investment bankers who have not paid a visit to the Rome headquarters of the big

The stock market has failed to play the role which might be expected of it

state enterprises at some point or other in their careers.

By contrast, structural imbalances in the Italian economy mean the stock market has failed to play the role which might be expected of it compared with most other developed countries.

The need to attract private savings into government bonds in order to finance the budget deficit has traditionally disadvantaged the equity market as a major source of capital. Thus government bonds have traditionally tended to be a more attractive instrument for private savers than shares.

The handicaps on the bourse as a major source of capital for industry have been reinforced

over the years by other factors which have made many small companies in particular reluctant to consider going public.

While an unwillingness to cede even partial control to third parties is the prime usual reason cited against flotation, the stock market's traditionally poor reputation for transparency is often another. Insider trading, poor execution and general inefficiency are factors which have severely hampered the functioning of the Italian stock market as a source of capital for industry.

Meanwhile, ideology and clientelism among political parties probably explain why much of state industry has also tended to steer clear of the stock market. Few politicians are willing to consider full-scale privatisation for state industry, with the result that quoted companies, where they do exist, tend to be limited to minority stakes or non-voting savings shares.

However, matters may now be changing under the pressure of lower economic growth and much tighter control of the government's purse strings owing to the ever-growing budget deficit.

As a result, the big state holding companies, which are already heavily laden with debt, are being increasingly obliged to consider asset sales as an extra source of funding.

So far, outright disposals have been limited in favour of partial solutions. This year alone, IRI has raised money by selling off non-voting shares in STET, the telecommunications holding group, and Credito Italiano, one of the country's biggest banks. It has also put its controlling stake in Cementir, Italy's third biggest cement group, on the block.

A decision earlier this month by Italy's Constitutional Court to block around L10,000m earmarked for the state holding companies suggests that the number of sales will rise. IRI alone stands to lose L1,450m as a result of the ruling. The fact that it has

already spent or allocated over a third of that amount suggests that further sales of "non-strategic" assets are likely to take place.

Private industry also appears to be in the middle of a belt-tightening phase. Those most affected are the handful of companies which have borrowed heavily to finance rapid growth through takeovers, such as Ferruzzi-Montedison, or others, such as Olivetti, operating in sectors facing particular difficulties.

Both Ferruzzi and Montedison are now striving to reduce their gearing, following a period of breakneck expansion. In the case of Olivetti, through takeovers under Mr Raul Gardini, their former boss. Meanwhile, stung especially by unsuccessful takeover bids abroad, Mr Carlo De Benedetti's CIR holding company, which controls Olivetti, has also gone a long way to eliminate debt from its balance sheet.

The first-half figures for many of Italy's big banks showed that lending to industry was still relatively buoyant, despite the slower economy.

Private industry appears to be in the middle of a belt-tightening phase

According to Banca Commerciale Italiana, one of the country's top industrial lenders, borrowing rose by over L10,000m to L172,540m in the first half, with the bulk of the increase coming from increased customer demand. Other big banks told a similar tale.

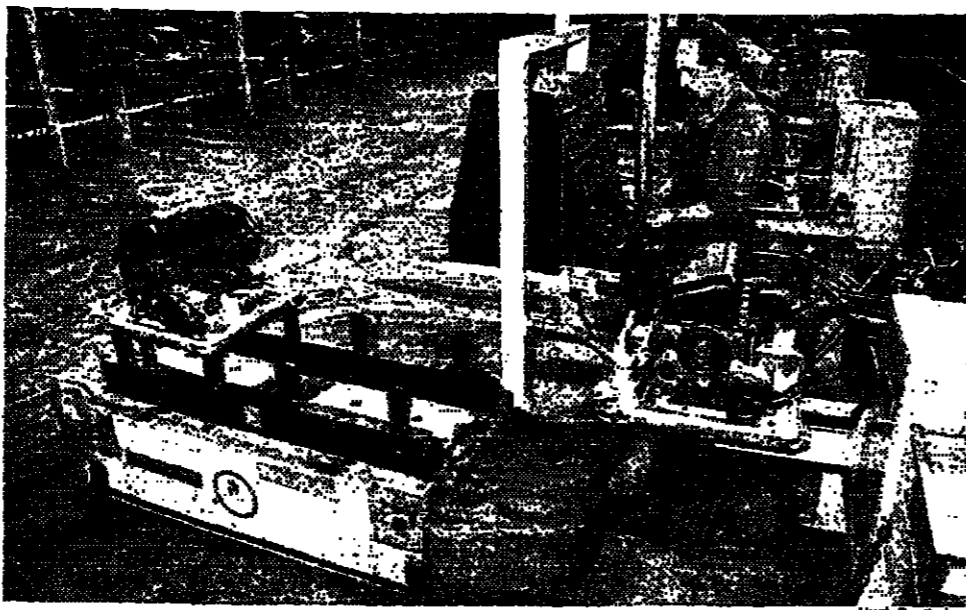
But the impact of recession is already being shown by a much more cautious approach towards growth by big industrial companies. In the public sector, the funding mean not only a caution towards expansion, but a reluctant necessity to consider disposals, are also in the air.

Haig Simonian

ITALIAN INDUSTRY 3

David Lane looks at the plans and prospects of the country's biggest private sector corporation

Fiat invests to beat off the invaders



Engine production at Fiat's Mirafiori plant in Turin

Hugh Routledge

STAFF AT the "Gruppo di Progettazione" engineering group at Fiat's Turin headquarters are being kept more than usually busy. During the five years 1991 to 1995, Italy's biggest private sector corporation plans to spend L2,000bn (\$2.76bn) on research and development and a further L22,000bn on investment in processes and products in the automobile sector.

The "Gruppo di Progettazione" has the responsibility for spending much of this budget. The success of Fiat automobiles in facing the increasingly tough competition of the 1990s depends in large measure on the corporation's project engineers making the right decisions now on the design and operation of plants.

Just under a year ago Fiat announced a major new project at Melfi in Basilicata - the inland region of the Italian boot. About L2,700bn will be spent on an integrated bodywork and assembly plant that will employ a payroll of about 7,000. It plans to schedule, the first successors to Fiat's best-selling Uno model will leave Melfi's assembly lines in January 1994. The plant will reach annual production of 450,000 cars at full capacity.

Though many details must still be finalised, some fundamental engineering decisions have been taken. Welding and painting at Melfi will use technology that has been successfully employed for the past four years in building the Tipo and Tempra models at Cassino, a plant 60 miles north of Naples that employs about 8,000 workers.

"No company can be static and survive. But it is not possible to invest everywhere at the same time"

"Manufacturing technologies and techniques that have performed well at Cassino, like welding which provides a benchmark for this type of production, will be transferred to Melfi. Like all plants, it will contain a mixture of known and new technologies. "We must match the competition technologically and provide the right quality-cost results," says a Fiat spokesman.

Melfi is not the only important new project that Fiat is undertaking in Italy's *mezzogiorno*. An engine plant employing a payroll of 1,300 and producing 800,000 units annually is being built at a



Giovanni Agnelli, chairman of Fiat: "particular concern"

Anthony Ashworth

cost of L1,900bn at Pratola Serra in the adjacent province of Avellino.

And major changes are in prospect at Pomigliano d'Arco, the plant near Naples that became part of the Fiat Group when the Turin company acquired Alfa Romeo from the IRI state holding corporation in 1986. Pomigliano d'Arco is already tooled up and production is under way of the Alfa Romeo 75's successor, the 155 model that will be

launched at the beginning of next year.

Fiat emphasises, however, that there is no intention to abandon the north in favour of the *mezzogiorno*. "The large Mirafiori plant in Turin, which produces the Croma, Thema, Y10 and Uno, will build the Uno successor as well as Melfi. We started production of the Y10 last year at Arese near Milan, which will compensate for the cessation of production of the Alfa Romeo 76 at that

plant," says the spokesman.

New welding lines similar to those at Cassino were installed at Arese in tooling up for production of the successful Alfa Romeo 164. Investment planned for the plant, which employs about 6,000 workers, includes new painting lines.

"No company can remain static and survive. Renewal is fundamental, though it is not possible or necessary to invest

Japanese-badged cars, increasingly of European construction, are gaining market share

everywhere at the same time," says the executive.

In the major rationalisation process under way at Fiat, the corporation's managers and engineers are also looking very carefully at working methods. "Investment in technology is not enough on its own, and considerable effort is being focused on factory organisation, an area to which insufficient resources have been given in the past. We have to adjust and to optimise. We must recover our market position."

The difficulties that accompany transition from the prosperous closing years of the

FIAT: the five-year record

	1986	1987	1988	1989	1990
Financial data (Lbn)					
Net revenues	16,384	22,142	25,454	28,424	27,575
Operating profit	1,578	1,998	2,136	2,362	907
Investment	2,060	2,177	1,875	1,444	1,999
Research & development	378	558	673	821	1,067
Sales data (000 units)					
Italy	1,021	1,234	1,346	1,419	1,231
Share (%)	60.5	59.7	59.9	57.7	52.8
Europe (excl Italy)	509	635	661	698	701
Share (%)	4.8	5.6	5.8	5.8	5.9
Rest of world	181	168	192	187	200
Total Fiat sales	1,711	2,037	2,198	2,284	2,132

Source: Fiat

1980s to the tougher times of the early 1990s are starkly revealed in the figures for Fiat's recourse to Italy's state labour lay-off scheme, "CIG - Cassa Integrazione Guadagni". This week - the last in the month - 50,000 workers from Fiat's car factories will stay at home, continuing the pattern that has marked the year.

Every month this year, except January and August

when factories had holiday closures, between 20,000 and 50,000 workers have enjoyed one week away from the assembly lines with wages made up from the CIG. Fiat has thus been able to cut production by about 220,000

crucial to corporate health as sales in Italy are about twice those elsewhere in Europe, has become evident over the past three years. The Turin group had a domestic market share of 59.9 per cent in 1988, 57.7 per cent in 1989 and 52.8 per cent last year. If 1991 closes on the trend established in the first nine months, Fiat's share will be 47.0 per cent.

Ford has been the most successful invader, boosting sales of best-selling models such as the Fiesta and Escort by 51.3 per cent this year to reach 204,300 at the end of September. Renault has also made significant ground with a

24.7 per cent advance to 152,600 units, overtaking Volkswagen, Fiat's long-standing opponent for European primacy. The German maker nevertheless improved its Italian sales by 8.1 per cent to 147,800 units.

But the outstanding revelation, alongside Ford, has been the performance of Japanese badged cars. Their sales rose by 44.3 per cent to 43,300 units, giving a 2.7 per cent market share. Referring to extremely aggressive competition, Mr Gianni Agnelli, Fiat's chairman, told shareholders this June: "There is particular concern about the prospects of large-scale entry by the Japa-

nese automobile industry into the Community market."

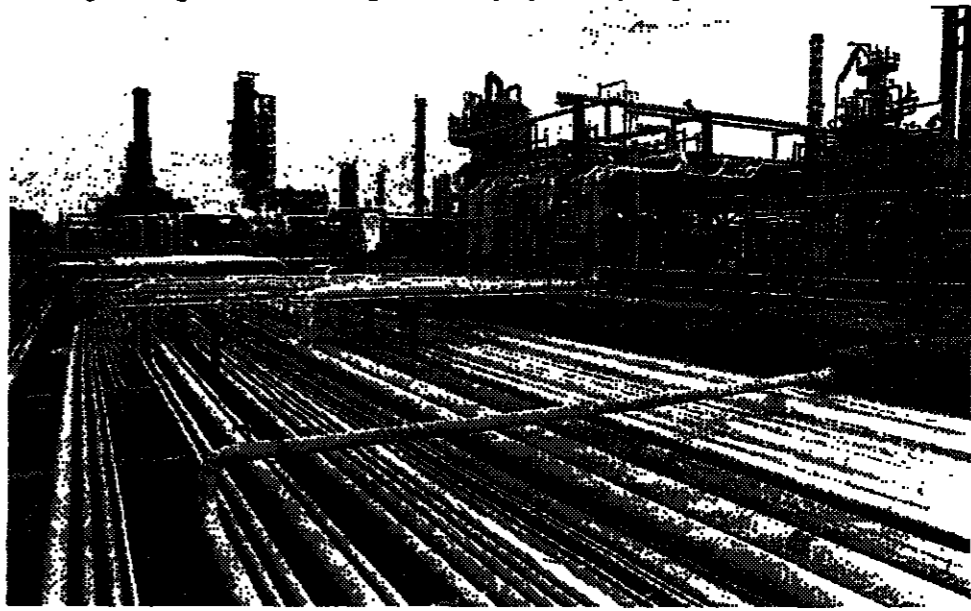
Sharp pricing, attractive model ranges and good quality are the reasons why Japanese-badged cars, increasingly of European construction, are gaining market share in Italy. The same is true of Fiat's traditional competitors.

The figures draw a picture of an Italian automobile industry that is under siege. And for this to be lifted, Fiat's styling centre and the engineers of its "Gruppo di Progettazione" will need to be on target with their designs for new models and the engineering for producing them.

As analysts scrutinise the figures, some probably think that the Italian automobile industry has missed two tricks in the past five years.

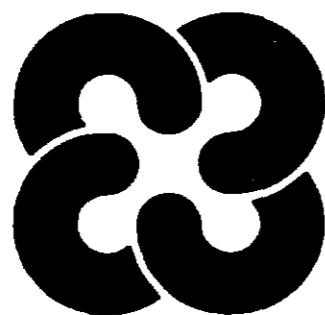
In the Alfa Romeo deal, the nation lost an opportunity to host a multinational industry and denied itself the benefits that this would have brought. And then, with the Italian automobile industry becoming synonymous with Fiat, the Turin group lost an opportunity to internationalise a year ago by choosing Melfi and Pratola Serra.

Looking to the future, however, much depends on the successor to the best-selling Uno. The Tipo has not been the winner that was hoped, and even if Fiat's Polish-built Cinqcento being launched at the beginning of next year meets consumer approval, it is in the contracting Segment A and will give low margins. The wait for the ever-green Uno's successor will be full of suspense.

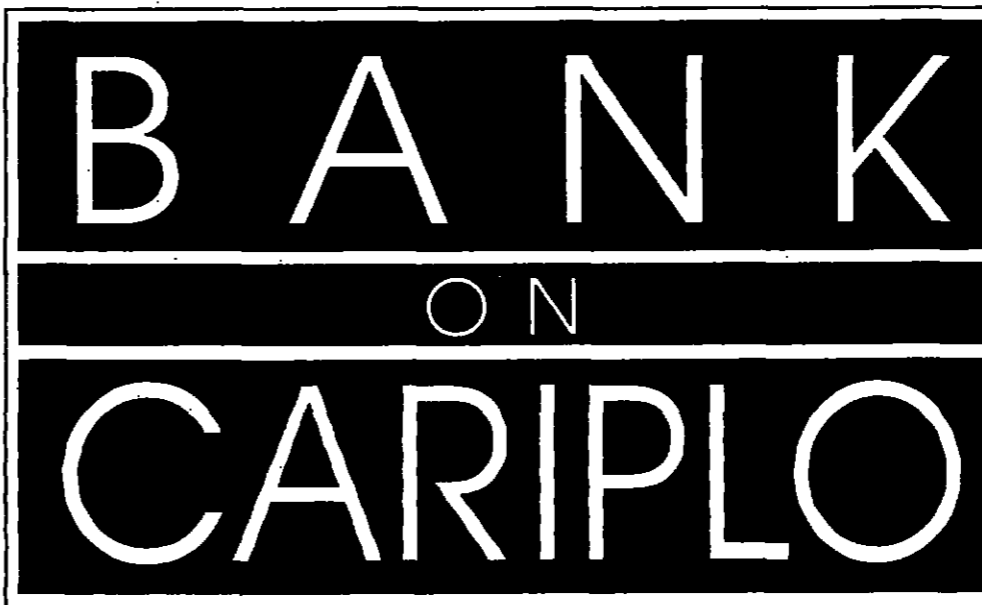


The ENI oil refinery at Sanazzoro Del Burgondi

Hugh Routledge



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ITALIAN INDUSTRY 4

David Lane investigates why the machine tool industry is one of the most successful in Europe

Demand stays buoyant as orders fall

"THE free fall in machine tool orders continued in the third quarter," said the press statement released in mid-October by UCIMU-Sistemi per Produrre, the Italian machine tools, robot and automation manufacturers' association. Total orders received between July and September logged a 19.8 per cent fall at constant prices compared to the same period last year. Orders from Italian customers slipped by 6.7 per cent, while export orders slumped by 28.8 per cent.

It was the seventh successive quarter in which UCIMU has reported a drop in orders. This latest quarter's downturn is particularly adverse as 1990's third quarter reference period recorded orders that were 33.6 per cent lower than in the previous year.

Unless there is an unexpected and substantial improvement in the closing months, 1991 will leave Italian machine tool makers with a bigger fall in orders than they suffered last year. At constant prices, orders fell by an average of 20.3 per cent in 1990 compared with 1989.

Anticipating Italy's economic slowdown, orders from home customers were 31.6 per cent lower last year than in 1989, while export orders held up relatively well with a modest 5.3 per cent fall.

The story written in the order books over recent months should subsequently

be read in results, as orders are processed into production schedules. In the meantime, the figures published by UCIMU do not appear as bleak as might be expected.

Indeed, after the sharp order reversals registered last year, production, export and home market demand have been surprisingly buoyant. At L4,800bn, output last year was 1.5 per cent higher in real terms than in 1989. And real advances were made in exports and home demand, which increased by 1.2 and 7.6 per cent respectively. Earlier this year, UCIMU forecast a 4.3 per cent real increase in exports, a 1.4 per cent rise in home demand and a modest 0.7 per cent fall in production during 1991.

These figures help to explain Italy's place last year in the world rankings of machine tool producers. With production worth \$3.7bn, Italy ousted the US from fourth place and significantly closed the gap with the USSR. Its share of world production increased from 6.9 per cent to 7.9 per cent in 1989. The share of world exports held by Italy's machine tool industry is at a similar level,



Cesare Manfredi: small is flexible in Italian industry

7.8 per cent last year. With exports amounting to L2,190bn Italian manufacturers were able to consolidate their ranking as second largest EC exporter and the fourth largest worldwide.

Germany, France, the US and the USSR provide the main outlets for Italy's exporters. These markets, characterised by demand for products with high technological content, absorbed almost half of total

sales of Italian machine tools abroad last year, with strong growth in Germany and France more than compensating for the decline in sales to the US and the USSR.

UCIMU considers that Italian machine tool makers are well positioned in Europe, particularly in the German, Spanish and French markets. These are expected to grow at real annual rates of 6.5, 5.4 and 5.2 per cent respectively between 1991 and 1995, so prospects are rosy. In addition, the Italian industry has good sales networks in Portugal, Switzerland, eastern Europe and the USSR.

It is indicative of the aggressive export stance adopted by Italian machine tool manufacturers that they were present in force at June's EMO fair in Paris. The Italians, with almost 340 exhibitors, taking nearly 28,000 square metres of space, comfortably exceeded the French in presence and were a good match for the massive German representation. By comparison, Britain's 45 exhibitors took 2,600 square metres. What is the reason for the success of Italian machine tool

makers in export markets?

"The key lies in flexibility and variety of supply. Tailor-made solutions are designed and built to satisfy customers' requirements. Where a machine will not perform the job that is needed, Italian machine tool makers will make modifications to meet specific needs," says Mr Cesare Manfredi, UCIMU's chairman.

"The Italian industry is able to respond partly because firms are predominantly small and therefore flexible. But it is able to give a personalised response also because the Italian industrialist is willing to become involved in the details and peculiarities of his client's problems," adds Mr Manfredi.

His own firm is typical, a small to medium-sized operation in Reggio Emilia, making milling machines and recording annual sales of about L25bn. Statistics from UCIMU show that about 85 per cent of the industry's 450 firms have payrolls of less than 100 workers. UCIMU's membership of nearly 230 accounts for about 90 per cent of total industry-wide turnover. Though small size allows

Italy's machine tool industry (Figures in Lbn)

	1986	1987	1988	1989	1990	1991*
Production	2,643	3,171	3,924	4,444	4,800	5,070
of which: exports	1,526	1,448	1,792	2,122	2,190	2,330
home sales	1,117	1,725	2,132	2,322	2,610	2,740
Imports	549	771	948	1,121	1,299	1,440
Demand	1,868	2,496	3,080	3,443	3,909	4,190
Trade surplus	977	675	844	1,001	891	890

*Forecast

Source: UCIMU

flexibility, Mr Manfredi believes that the fragmentation in some sectors of the Italian machine tools industry is a weakness. "The association has been looking at ways of encouraging mergers. I am particularly interested in fostering cross-border co-operation, whether mergers or agreements on technical or commercial collaboration."

"The best way of facing 1992's Single Market is to create a truly European industry. Two years ago UCIMU invited representatives of the associations in the main European countries to attend its meetings, to exchange ideas and examine the possibilities of

inter-firm co-operation. The Germans declined, but the French and Spanish associations accepted. Britain accepted but has never attended these joint meetings," says Mr Manfredi.

UCIMU's chairman considers that mergers or co-operation pacts could be a way of countering the Japanese. "In small work centres and lathes, their machine tools industry is highly competitive. In Italy no firm is large enough to undertake long production runs and produce at prices competitive with the Japanese. There is no technological gap; the problem is costs."

"The Japanese industry is

strong in standardised and general purpose machines. But it is investing heavily in machine tools with higher qualitative and technological content in order to increase its penetration in Europe," warns Mr Manfredi. The Japanese strengths and intentions have been made very clear to Italian machine tool makers.

Last year, purchases from Japan amounted to L182bn, a figure nearly three times greater than France, which gave Japanese machines third ranking after Germany and Switzerland in Italy's import table. More than 30 per cent higher than in 1989, Japanese exports to Italy were an important factor in the increase of the import/consumption ratio from 32.6 to 33.2 per cent.

However, the strengths of the Italian industry help generate a substantial trade surplus in machine tools, even though the contribution made by exports to Japan's closed market is minimal: L26bn in 1990. With exports expected to absorb 46 per cent of production this year, the trade surplus should be around L800bn, in line with 1990.

Mr Manfredi is bullish. "Our high ratio of exports provides a cushion against domestic downturns. An increase in exports will compensate for the impact of the economic slowdown on machine tool purchases at home. The situation is certainly not all black."

Robert Graham looks at the Prato textile industry

Style tests get stiffer

FROM THE designer clothes to the careful understatement of his large new office and the gleaming Mercedes parked outside, Mr Roberto Cenni exudes success. He represents the second generation now taking over the management of Gommatex, one of the leading textile companies in the Prato area just north of Florence.

Started 30 years ago by two men with two employees, Gommatex now has a payroll of over 400 and produces knitwear, wool textiles, cotton, linens and fake furs for the ready-to-wear fashion industry. Its broad product range has been one main factor enabling the company to consolidate its position in an increasingly competitive market.

Others have been less fortunate as the Prato textile industry confronts its first crisis after nearly three decades of spectacular growth. The Prato area boasts, round the River Bisenzio, the largest single concentration of textile and clothing companies in Europe. But during the last five years an important process of change

and contraction has been forced upon the industry, characterised until then by the success of its small family businesses.

Between 1985 and 1990, productive capacity was reduced by 30 per cent. According to Dr Andrea Balestri, head of research at the Prato Industrialists' Union, the number of textile companies fell from 17,000 to 12,000 during this period.

Exports, which account for roughly 60 per cent of production, also fell in value by 14 per cent to L2,815bn. Employment levels have also dropped. Right up to the mid-1980s, the Prato area had one of the fastest-growing working populations in Italy, attracting immigrant labour from inside the country as well as a considerable number of foreign workers (usually employed in the "black" economy). But Dr Balestri believes that at least 10,000 jobs have been shed from a high of 60,000 textile workers in the 1980s.

The wool trade in Prato dates back to the 14th century, but the present industry owes

its origins to the post-war period when the traditional mills, usually working recycled textiles and clothing, lent or leased looms and spindles to former employees. This gave rise to a plethora of small workshops, able to adapt to rapidly changing fashions, especially in female clothing.

They were helped by well-run, communist-controlled local authorities which encouraged the concept of the small and medium entrepreneur. In this way a unique culture emerged of both fierce competition and mutual inter-dependence and trust among the entrepreneurs. "Whenever I am showing visitors around factories, I don't even need to announce myself. The doors are always open and I can walk around," says Dr Balestri.

Dr Balestri believes this environment has helped generate a creativity which has enabled the industry to expand and adapt, moving away from being imitative and demand-led. "When production costs cease to be competitive, we can still stay ahead with ideas and flexibility," he says. The entrepreneurs pride themselves on being able to produce a new idea in under 20 days.

But the industry has "matured" and both labour and general production costs have eroded competitiveness. With high wages, the only way to reduce costs has been through cutting jobs, sub-contracting and importing workers from North Africa (some 1,000 have even come from China). Resort to the latter expedient is merely a palliative and there is a social

limit to the size of this largely illegal labour force.

On the finance side, borrowing costs remain high and many Prato companies were hit by the collapse of the local savings bank, the Cassa di Risparmio di Prato, in 1987-88. The unpredictability of the fashion business, combined with the small size of the majority of the companies, means that financial structures are weak. (Only 65 companies have payrolls of more than 50 people). Latterly, several small companies have stayed profitable through low tax payments.

On the production side, the industry's original strength and concentration was carried wool aimed at the cheap end of the market. But the Portuguese textile industry has emerged as a major competitor

in the past decade, and more recently Romania. In addition to a number of Asian producers. Indeed, the companies which have disappeared have tended to concentrate on the mass market. For instance, last year the number of wool producers dropped by 18 per cent. But this was compensated by a similar percentage of new companies moving into higher quality textile production.

Today some 35 per cent of activity is still concerned with recycling textiles and producing for the mass market. Roughly half is taken up with supplying the ready-to-wear business and department stores; while the remaining 15 per cent is upmarket fashion. In contrast, the other textile "monoculture" at Biella in northern Italy, which is two-

thirds the size of Prato, concentrated on quality fabrics (worsted and cashmere) and has managed to prosper - essentially because of its niche market position and emphasis on quality. The lesson of Biella has been taken on board.

The average size of Biella companies is also larger and this is leading to a rethink in Prato of its "small is beautiful" philosophy. Many of today's costs such as successful marketing, investment in new technology and computer-aided design require concentration rather than the old fragmentation. Infrastructure costs are also increasing as indeed is the price of land in a highly built-over area.

Large sums will need to be spent on anti-pollution measures to placate a growing environmental lobby since the industry is a heavy pollutant. Already, local business and the Prato municipality have linked up in a common funding of an industrial waste water project, the first such instance in Italy. As it is, uncontrolled use of underground water supplies is

unlikely to last.

People like Mr Claudio Martini, the mayor of Prato, also recognise the dangers of a community relying too much on demand-led monoculture of textiles. Thus, he is encouraging diversification. Part of the Florence-based printing industry is being urged to relocate and the University of Florence engineering faculty will move to Prato.

But despite the present difficulties, textiles are likely to remain an integral part of the Prato economy. Indeed, some Prato industrialists argue that the decline in the number of companies during the past five years is part of a dynamic process whereby the industry is strengthened and modernised. That, at least, is what Mr Cenni of Gommatex believes. He willingly accepts the challenge of bi-annually reading the fashion industry correctly to satisfy customers with the right product at the right price. "It's like sitting an exam twice a year and if you don't do your homework, you don't pass," he says.

TOMORROW'S QUESTIONS ANSWERED TODAY.

Founded in 1864, Italcementi is one of the largest producers of cement



in Italy - indeed, one of the major groups in its sector in the world. Its position has been achieved thanks to the quality of its staff, the capacity of its plant throughout the country and the constant efforts of its research arm, one of the most sophisticated in the world's cement industry. These aspects of its operation have all helped to formulate Italcementi's advanced know-how and ability to design and produce a complete "system" of materials, all of the highest quality, durability and finish. Today Italcementi's range includes a wide variety of products, from traditional cements to highly specialized materials designed for the construction industry. These products make possible the realization of major engineering projects such as dams, hydraulic works, oil wells and viaducts as well as urban reconstruction, even the restoration of artistic and architectural monuments. Italcementi research seeks to meet the diverse needs of the constructor.

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ITALIAN INDUSTRY 5

Company profile: GEWISS, electrical fittings and lighting company

The advantages of going public

NESTLING IN the hills just north of Bergamo, one of the richest cities in northern Italy, Mr Domenico Bosatelli's new factory appears an object lesson in efficient plant design.

Spacious offices, well-laid out workshops and a rigorous attention to detail mark out the latest investment by Gewiss, the quoted electrical fittings and lighting company he controls.

With sales of L111bn and net profits of L12.6bn last year, Gewiss is a good example of the medium-sized, family-controlled industrial enterprises which form Italy's economic backbone.

Mr Bosatelli is unusual among Italian entrepreneurs for having floated part of his group, now worth around L150bn on the bourse. However, the ranks of dark Mercedes saloons parked outside his headquarters demonstrate that he is otherwise typical of the highly successful north Italian businessmen who race along the Autostrada, one hand on the phone, almost as fast as their German counterparts.

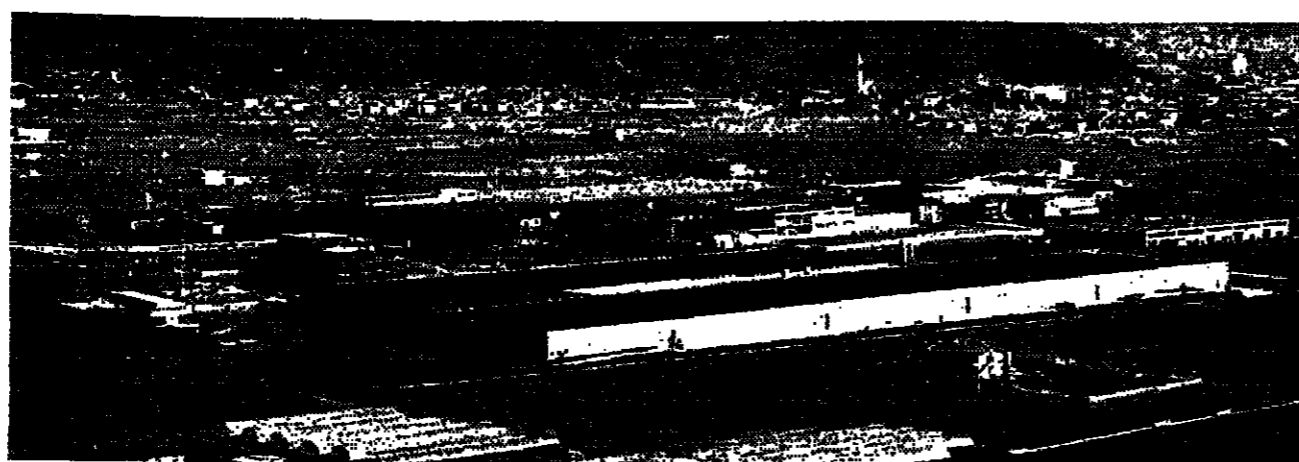
Most have plenty to say about their businesses, but even more when it comes to politics and the public sector. Mr Bosatelli is no exception.

He prefers not to list the dozens of factors which handicap his business compared with Legrand, its big French rival. "We try not to think about these things or else we'd change jobs," he says. His complaints, like those of his many other private sector counterparts, focus on the poor quality and "scarcity" of public sector services; and the "short-termism" of Italian politics.

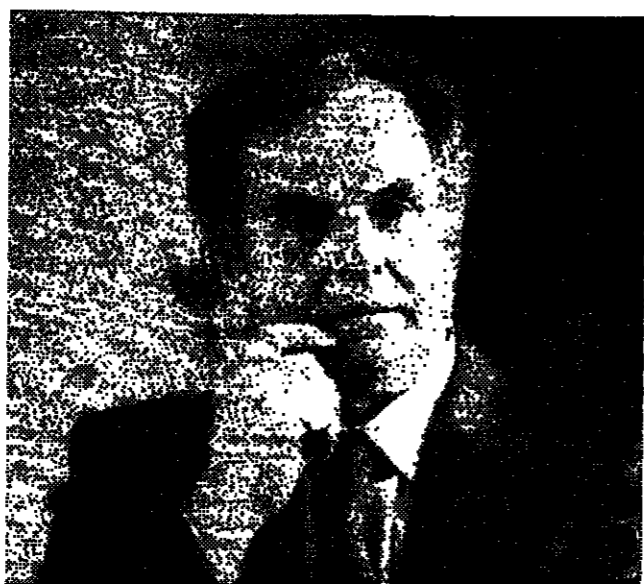
Poor services start with inadequate telephones and postal facilities and stretch to badly maintained motorways. And short-termism is summed up by Italy's rotating governments and the ministerial inexperience they foster.

"While the politicians just think of the next crisis or election, we have to plan five or 10 years ahead," he says. "These are all the ills of Italy. It's not worth going into them further. Entrepreneurs should just accept the state of things and get on with it."

Mr Bosatelli has been prac-



The new Gewiss factory in Bergamo, northern Italy



Domenico Bosatelli: "a different image around the table"

tising what he preaches. Since he founded Gewiss 20 years ago, the company has developed into the market leader in Europe for external lighting and the main producer in Italy for many types of electrical fittings.

The continuing fragmentation of the European market on account of different national product standards has kept the export share of sales to around 10 per cent of group turnover at Gewiss. Nevertheless, the company has won contracts to provide emergency lighting for the Channel Tunnel and temporary trackside illumination for British Rail.

Moreover, matters may be

changing, thanks to the harmonisation of international electrical standards, says Mr Bosatelli. The company's latest range of electrical fittings for industry, which has been under development for almost three years, will meet the new common international standards which have just come into force.

Rather than square, flat or round pins as in the past, electrical connections for industrial equipment now have to follow a unified standard, whether for a factory in Milwaukee or a workshop in Madrid. Gewiss has already established marketing and distribu-

tion offices in France, Spain and the UK to spur its foreign growth. A new operation in Germany is due to follow, while discussions are under way on setting up in the US. Eventually, exports should reach 40-50 per cent of group sales, says Mr Bosatelli. In the first half of this year, foreign sales soared by 75 per cent.

As with many medium-sized businesses, much of the investment at Gewiss is financed from cash flow. Plans for a rights issue last year to help pay for the new plant, which accounted for L200m of investment in 1990 alone, were shelved after the company decided that internally-generated funds would be adequate. "The rights issue was postponed to finance a venture for which internal resources would not be enough," says Mr Bosatelli.

Now, an acquisition could be on the cards. The lighting market in Italy is still fairly fragmented, with 10 manufacturers accounting for around 80 per cent of national sales, although there are no immediate take-overs in the offing.

Mr Bosatelli recognises that the company must continue to grow, and that increasing the proportion of shares floating on the bourse is inevitable. With one son in the business and the other due to return after military service, he does not think that family ownership of medium-sized or larger companies in Italy is doomed. However, he stresses the need to bring in professional managers and take steps to prevent the family's sharehold-

ing being dissipated among future heirs, making decision-making impossible.

"I think it has become quite indispensable to go public. For two reasons. Primarily, because after the first generation, the shareholding is split; secondly, in order to have the company managed professionally, and as one unit," he says. Flotation is also "in the interests of the company". The stock market provides an additional source of capital. And, for an Italian company often involved in international negotiations, "it makes us look more reliable and solid. You have a different image around the table if you are public."

Share ownership also stimu-

lates the staff, he believes. Around 20 per cent of the employees at Gewiss became shareholders when the company went public.

Although sales rose by 16 per cent to L66.2bn in the first half while net profits edged up by only 1 per cent to L4.68bn, most seem content with their investment. Higher spending on fixed investments and research and development will keep the lid on earnings for the full year too, forecasts Mr Bosatelli. Nevertheless, undaunted by recession in a number of markets, he is ploughing ahead, politicians and all.

Haig Simonian

Profile: GUIDO BODRATO, industry minister

The pitfalls of privatisation

BESPECTACLED AND mellifluous, Mr Guido Bodrato is not everyone's image of an industry minister. A long-serving Christian Democrat politician from Piedmont in northern Italy, his ministerial responsibilities in previous governments have focused more on education and finance than industry.

Brought into Mr Giulio Andreotti's new government in April, Mr Bodrato, 53, has now found himself in one of Italy's hottest seats. With public finances deteriorating as the government budget spirals upwards, the Treasury's stress on privatisation as a source of income has caused friction between Mr Bodrato and some colleagues, notably Mr Guido Carli, the treasury minister.

Matters reached a head last month, when Mr Carli secured a commitment in the budget to press ahead with the hitherto halting privatisation programme by adding companies like ENEL, the state-owned electricity group, to the list of possible sell-offs.

Although the proposals have been greatly watered down following a barrage of criticism, Mr Bodrato has increasingly emerged as one of the figureheads of the anti-privatisation camp.

Despite his eloquent remarks to the contrary, his stance against sales of state assets is soon evident. Privatisation "is just a slogan", and what matters is whether companies do better in private hands, he emphasises.

He is not against disposals as such, but crossed swords with the Treasury following Mr Carli's statement that selling public businesses was another facet of rolling back socialism and linked to the collapse of communism in Europe.

For Mr Bodrato, the remarks were misguided, at best. The Italian government's role in industry stemmed not from ideology, but a need to bail out private sector companies in difficulties that began in the 1930s and has continued ever since. "It was not out of any ideological desire to raise the role of the state," he says. "There is no conflict of opin-



Guido Bodrato: has crossed swords with the Treasury

ion within the government on reducing the role of the state in the economy or selling off assets." Reports of ministerial clashes are "a bit artificial". Nevertheless, Mr Bodrato deftly outlines the obstacles to privatisation. Some sectors, such as heavy industry, energy and chemicals, are "strategic" and cannot be sold.

The ability of domestic financial markets to absorb sales is another constraint; there is little point in big sell-offs unless enough investors can be found to absorb the assets. Yet in order to dent the deficit, any sales would have to be of a "relevant" size to attract investors, especially from abroad.

Moreover, current concerns about recession and depressed trading volumes on the bourse mean it is hardly the most opportune moment for privatisation.

Ministerial hands are further tied by the fact that private savings must be attracted into government bonds in order to finance the deficit. Thus any government must take care to avoid privatisations competing with bonds for savers' cash.

As for ENEL, one of Mr Carli's favourite candidates, there are both legal and financial obstacles to a disposal. Privatising electricity would mean changing ENEL's legal

monopoly, which could lead the government into a political minefield. And tariffs would have to rise to make ENEL more attractive to investors. While higher profits could increase ENEL's stock market appeal, the consequences for Italian industry and inflation would be dire, he warns.

Similar problems facing other big public sector sales swiftly whittle down the potential privatisation list. In the end, surplus state property, like old army barracks and railway land, and, just possibly, some public sector businesses in the food industry, are about all that remain.

Yet despite Mr Bodrato's skilful elucidation of the pitfalls, he tacitly admits that party political differences over privatisation could in certain cases result in the buck for disposals being passed to executives at the big state holding companies IRI, ENI and EFIM.

Managers at the three groups know they can no longer rely on government funds as a result of the pressure on the deficit, so disposals could be one solution.

Mr Bodrato accepts that, in the case of smaller sales, the decision could be left to the management boards concerned. "It would be a way of giving primary responsibility to those who are in charge of day-to-day management," he says.

Despite all the recent polemics over privatisation, Mr Bodrato has not lost his taste for the industry portfolio. "I thought it would be much more closed and bureaucratic than it is," he says. "In fact, it interests me far more than I thought it would in the past."

General elections scheduled next year could mean Mr Bodrato's term of office will go down as one of the shortest on record. He gives no hint about his own ministerial ambitions. However, the implication is that he would be pleased to retain the industry post. "It's a ministry which is tiring, with lots of speeches and meetings, but I don't see my interest running out," he says.

Haig Simonian

ANSALDO WORLDWIDE ITALIAN TECHNOLOGY

Ansaldo, a company of the Iri-Finmeccanica group, is the first Italian thermoelectromechanical complex and is the leader of a group of companies in the sectors of energy, transport, and large systems for industry and environment.

Ansaldo is present on international markets through an articulate organization made up of nineteen companies.

Ansaldo, one of the oldest Italian industrial realities, born in 1853, becomes the first Italian partly state-owned industrial nucleus along with the foundation of IRI - Istituto per la Ricostruzione Industriale. In the 1960s Ansaldo represented, among other things, the industrial protagonist of the Italian state for the development of energy plants and systems, in particular for the development of nuclear energy.

With such capacity, Ansaldo participated in the development of all Italian nuclear power stations and in numerous developments on an international level.

In 1987 through a referendum on the emotional wave following the accident at the Chernobyl nuclear power station, Italy decided to stop further developing nuclear energy.

All of a sudden Ansaldo found itself without its "core business" with a total loss of about 4,000 billion lire of orders already acquired by 1,700 operators with an annual turnover of approximately 500 billion lire. Ansaldo came out of the "nuclear cataclysm" through an articulate transformation and reconversion process.

The chosen strategy was that of deeply diversifying the sectors by penetrating in new business sectors. Energy, in fact, represented about 75% of Ansaldo's business volume in 1987 with the remaining 25% divided between automation, industrial systems, and transport.

This process encouraged the company to enter new markets, for example that of railway signalling - for which Ansaldo is now the leader on an international level, that of environmental protection, and, lastly, it allowed it to develop a complete range of energy systems (cogenerating, photovoltaic, turbine, etc.). At the end of such a process, energy represented approximately 50% of Ansaldo's total turnover with a homogenous increase of the transport and industrial business sectors (25% each).

In a little more than 2 years, in fact, Ansaldo invested 1,000 billion lire in purchasing new companies, in "know-how", in research, and offers - greatly increasing its own commercial penetration in the world. This restructuring involved the movement of about 7,500 employees, laying off only 350 of the employees working in the nuclear business.

Of the companies acquired by Ansaldo it is important to point out the ones from the United States: Union Switch & Signal, Transcontrol, and the Swedish ATSS in the railway signalling sector; Ross Hill and Hill Graham in the industrial automation systems sector.

In 1990 Ansaldo concluded an articulate reconversion process, becoming the only thermoelectromechanical group in Italy.

In the course of 1990 acquisitions reached 5,006 billion lire, while yield production reached 3,726 billion lire. In the same period Ansaldo invested about 80 billion lire in technology with approximately 22,000 operators.

ANSALDO FOR ENERGY

In this particular sector, the company was able to put to interest its capacity as "general contractor" and as "industrial engineer", for the design and supply of both complete plants and subsystems for thermoelectric, hydroelectric, geothermal and photovoltaic power stations. The Ansaldo accomplishments in the field of energy exceed 95,000 MW: a figure that in itself highlights the company's greatly experienced background. Presently Ansaldo is operating in all of the geographical areas that in recent years have shown high demand for Ansaldo's cooperation, with fully functioning sites for over 4,000 MW.

Their activity in the energy sector has recently been marked by an important increase in acquisitions especially on international markets, through Ansaldo Gie and Ansaldo Componenti, both for energy generation plants and for service activities.

In the energy generating power stations sector, the company in 1989 acquired contracts for about 2,600 MW of turbogroups and for approximately 2,500 MW of vapor generators. Ansaldo now controls 14% of the international turbogroups market.

ANSALDO FOR TRANSPORT

Ansaldo Trasporti designs and creates "turnkey" electrical transport systems, furnishes the vehicles, the supply, signalling, and automation systems and the mechanical components with particular attention to research, to development and to innovative design. In the last years over 3,000 locomotives, over 600 vehicles for undergrounds and regional railways, over 700 tramways and light undergrounds, approximately 3,300 trolley-buses have been produced; signalling systems on over 3,000 km of railway and about 15,000 MW of power supply have been installed. In the urban transport sector, and in particular that of undergrounds, Ansaldo is involved as "main contractor" in the accomplishment of projects that are presently under way in Italy and, together with other partners, in the realization of projects that have been recently started in several large cities abroad (Lima, Bogotà, Buenos Aires). In railway signalling activities, where Ansaldo Trasporti and a series of its associated companies (Transcontrol, Transystem, Union Switch & Signal, Wabco Wesinghouse, ATSS) are operating, the company holds a position of leadership on an international level.

ANSALDO FOR INDUSTRY

Ansaldo has progressively expanded its projecting and construction from single machinery and their mechanical components to operating instructions, from the first electrical controlling equipment to the most recent and sophisticated electronic instruments for entire productive processes, becoming the protagonist of every-day systematics. Ansaldo therefore designs and creates machinery and systems for the movement of raw materials, harbour and naval plants, hydraulic systems and relative equipment, directs activities of electroinstrumental mountings and of rehabilitation, enlarges and revises already-existing plants.

Making the best of its own plant engineering and manufacturing experiences, Ansaldo is now present in the field of environmental protection, operating also through a series of recently-purchased and strongly-specialized companies.

For Ansaldo, 1990 represents the year that marked the accomplishment of important objectives, first of all the creation of an "Italian System" in the thermoelectromechanical sector today being the only Italian constructor integrated in the energy production sector, a leader on the Italian market and a protagonist on an international level.

The strategy that allowed Ansaldo to manage this sort of restructuring and reorganizing process was made possible uniquely because of the technological and market qualities arisen from the synergies and interactions of the three sectors that make up each large thermoelectromechanical group: energy, transport, industry.

In 1990 Ansaldo's energy product portfolio enriched through the acquisition of gas turbine technology, the result of a long-term cooperation agreement with the energy generation group (KWU) of Siemens Ag. On the basis of this agreement, Ansaldo is given the right to the production, commercialization and service of gas turbines of Siemens design and technology, to then follow with a design and successive technological development cooperation.

In the field of transport (after the acquisition of the Italian companies of Wabco, US&S, Transcontrol, and its participation in the French company CSEE in 1989), in 1990 Ansaldo Trasporti founded, in agreement with the Swedish company Standard Radio & Telefon Ab, a new company named AT Signal System Ab (ATSS) - of which 75% is controlled by Ansaldo Trasporti - to create automatic drive systems and train movement control systems.

Furthermore, again with the Siemens Group, Ansaldo started a cooperation and technological integration agreement in the cable transport sector for the development, the production, and the research in the railway sector.

The internationalization process in 1990 recorded significant results. The new Hungarian company Ganz-Ansaldo - mainly Ansaldo-owned - was founded in 1990 and was given the activities of Ganz Electric, the largest Hungarian electromechanical group. The widening of its international presence in the sector, its articulation in evermore diversified businesses, and the necessity to take part in a continuously changing market, has demanded - both in supply and demand - a coherent adjustment of its structure. The reorganization, founded on the structure of the leading Ansaldo as the coordinating and controlling centre for the business/company operating areas and constituted by 11 businesses, has demanded, in fact, a further development and improvement that, defined in the course of the last months of 1990 and operating since January 1991, transformed Ansaldo into a corporation.

ITALIAN INDUSTRY 6

Robert Graham explains why the sector has fallen behind the international competition

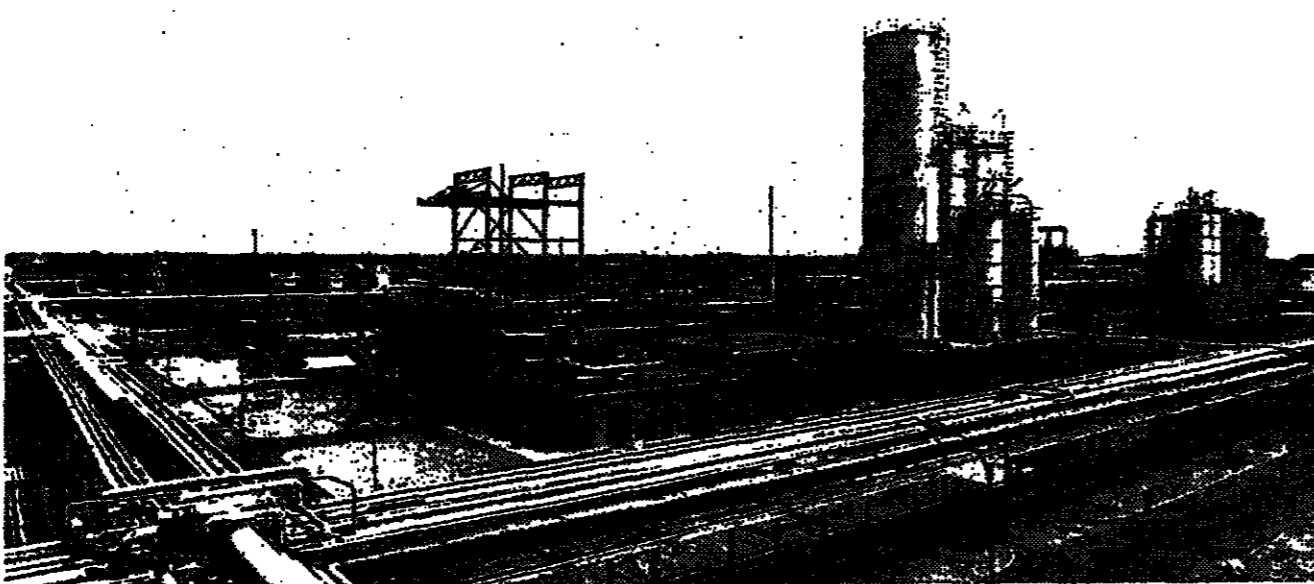
Politicians should be blamed for chemicals' woes

THE ITALIAN chemicals industry lags way behind its principal competitors. While others have already reacted to international overcapacity and the sharp falls in prices in bulk chemicals, the Italians are still at the stage of discussing plans. Indeed, serious doubts surround the industry's ability to carry out the necessary structural reforms to be competitive in the 1990s.

The industry itself and the technicians can hardly be blamed. This sector has long been a source of political patronage and influence, especially in southern Italy, Sardinia and Sicily, and nearly all the industry's problems can be traced to political considerations overriding economic and commercial logic.

"This state of affairs has been compounded by the way in which Italy has concentrated on bulk chemicals and fertilisers which have been most affected by international overcapacity, falling prices and the general downturn in demand both at home and abroad. Fertiliser production in Italy fell 15 per cent last year and looks set to fall by almost the same percentage again this year. In contrast, production of higher value materials for the pharmaceutical industry is expected to increase 8 per cent. Meanwhile, a significant portion of the mounting chemical products' trade deficit is accounted for by the import of specialist chemicals.

Also, the industry has gone against international trends by becoming more rather than less state-controlled, and by relying heavily on the domestic market for sales and plant location. EniChem, the chemicals arm of the state oil concern ENI, now in effect controls the industry since last November's purchase of an outstanding 40 per cent in Eni-



A chemical plant in Mantua

mont held by the Ferruzzi group's Montedison.

EniChem depends on the domestic market for 55 per cent of its turnover, double the percentage of other major chemical companies. The group has located 80 per cent of its production facilities inside Italy, which again bucks the trend of multinational

Bulk chemicals and fertilisers have been affected by global overcapacity, falling prices and a downturn in demand

groups. Not surprisingly, its financial position is more troubled than any of its competitors among the top 15 international chemical groups. Last year, EniChem lost 1,839m and first-half losses this year rose to 1,209m. It is the

only major chemical group to be in the red. These figures are only in part the consequence of the Gulf War and principally reflect the group's delay in restructuring.

EniChem is trying to push through a four-year business plan which involves considerable rationalisation and a return to core business centred on manufacture of products from the petrochemical industry as well as moving into added value products. The group is also looking for a new international partner or partners which would take advantage of EniChem's enormous polyethylene production facilities (it is Europe's largest producer).

Talks have been going on with Union Carbide on a \$1.5bn deal that would permit the latter a foothold in European markets in return for EniChem expanding in the US and gaining access to new technology

to exploit its own polyethylene production. This is the preferred "in-house" arrangement; but this path of modernisation is likely to pull EniChem out of the close embrace of the politicians.

Like its parent, ENI, the company has been seen as a fiefdom dominated by the Socialists but with important counter-balance on the board from the Christian Democrats. Thus, there is growing speculation that EniChem might turn to its old protagonist and associate, Montedison (controlled by the Ferruzzi group) as a partner - the latter having developed exciting, but as yet commercially unproven, technology for the exploitation of polyethylene.

Under such an arrangement, EniChem would provide the building blocks and Montedison would produce the finished products. This would retain the industry in Italian hands and

is favoured by the politicians. Nevertheless, Eni-Chem and Montedison fought a bitter contest to win control of their jointly-controlled chemicals company, Enimont. This ended in November 1990 with EniChem acquiring Montedison's 40 per cent stake in Enimont and then tendering for the remaining 20 per cent on the open market.

There was controversy over the price paid for Montedison's shares, which was well above the market rate; but the government argued it was a fair premium for a stake of such size. Nevertheless, the deal increased EniChem's debt burden considerably and net debt now stands at over L8,300m.

The battle was a defeat for the plans of Mr Raul Gardini, the then Ferruzzi boss, to expand his empire. At least in part, Mr Gardini's rout was engineered by the Andreotti government - precisely

because the politicians disliked the idea of an independent-minded person in the private sector controlling such a key industry linked into profitable ENI which provided the feed-stock.

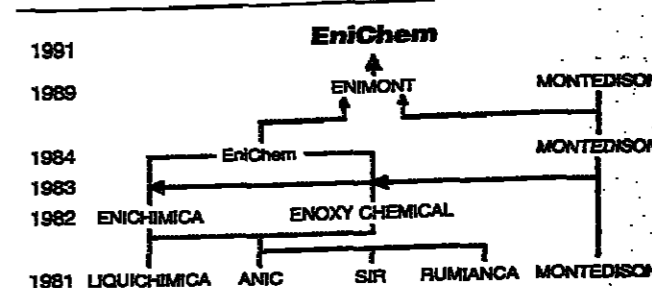
Even though Mr Gardini stepped down from Montedison last year, a broader deal to rationalise the chemicals industry was complicated so long as he remained at Ferruzzi. The ousting of Mr Gardini from Ferruzzi in July has changed the picture completely and encouraged contacts on arrangements with EniChem.

To understand which path EniChem may now follow, account has to be taken of the turbulent history of the industry in Italy over the past two decades. The petrochemical complexes and chemical plant now owned by EniChem often owe little to commercial logic. Sites were chosen because politicians lobbied hard and because the state provided generous subsidies for new industry in the south, Sardinia and Sicily, regardless of domestic or international demand.

During the 1970s, a plethora of small plants was established in less-developed parts of Italy which concentrated on relatively low technology bulk chemicals and fertilisers. For a long time, subsidised funds and protected markets tended to conceal operating costs. But by the 1980s it was clear that production costs were too high, compounded by high transport costs since the plants were usually far removed from the principal markets in the north. Because of incentives for regional investment, often as many as five different companies ended up possessing similar plants in the same areas.

The financial plight of chemical companies including SIR and Anic finally forced a concentration of the industry in

Restructuring of the chemical industry



1981. In simple terms, the public sector found itself obliged to assume the operations of the financially-troubled private and semi-private groups. The process of concentration was facilitated by the strong cash flow position of ENI under whose umbrella the initiative took place.

The number of companies was cut to three by 1983 when ENI and Montedison agreed on the rationalisation of production as well as an ENI-led joint venture with Occidental to provide increased international outlets. Occidental then sold out, leaving EniChem and Montedison in control of the sector through Enimont.

Despite such rationalisation at the company level, little has

For the path EniChem may follow, account must be taken of the industry's turbulent history in the past two decades

been done to adjust the structure of plants, production and employment. Indeed, as EniChem's 1991-94 business plan showed, there are some 40 plant sites of which only four employ more than 3,000 persons. The plan envisaged the

closure of some of the smaller plants in the south and a permanent cut of 4,800 jobs by 1994 in the 50,000 workforce with additional temporary lay-offs of a similar amount. The sweetener was the promise to invest almost 55 per cent of new investment in the south, Sardinia and Sicily.

Though relatively painless by the standards of action taken by, say, Dow Chemical or ICI, these proposals have provoked a political storm and strong union protest. They affect the areas of Italy's highest unemployment and regions with important political patrons at a time when general elections are due next year.

Only in mid-October were doubts removed about the EniChem business plan when agreement was reached with the unions on redundancies and closures. The number of lay-offs was reduced by 450 and the life of two plants in the south was prolonged. But these small changes should be seen in the context of a further decline in the economy, while the financial position of EniChem has deteriorated since the plan was announced in April. Overall chemical production is now likely to fall this year by 0.5 per cent and an upswing is unlikely before the middle of 1992.

Prospects for Olivetti look bleak, reports Haig Simonian

Champion under pressure



Vittorio Cassoni: "our rivals are doing worse"

WITH A L73.7bn (\$33.9m) loss in the first six months of 1991 and the prospect of worse to come before the year-end, the outlook for Olivetti, the champion of Italy's computer industry, looks bleaker than for many years.

Demand for personal computers, Olivetti's mainstay, has declined sharply in the past year. Meanwhile, competition among leading manufacturers, which has triggered severe price cuts across the industry, has focused on the group's main markets in western Europe.

Announcing interim results last month, Olivetti emphasised the fact that computer makers had reacted to tougher

conditions by approving major restructurings and "engaging in price wars that in some cases involved discounts of up to 40 per cent".

Mr Vittorio Cassoni, Olivetti's chairman, has tried to sound a more optimistic note. Although Olivetti is suffering, the majority of its US and European rivals are doing even worse, he says.

According to Mr Cassoni, group sales this year should maintain the 1990 level of around L9,000bn, implying a slight pick-up in the second half. However, both he and Mr Carlo De Benedetti, Olivetti's chairman, have warned that profitability will remain under severe pressure, and that fur-

ther re-organisation and cost-cutting will be inevitable.

Olivetti's recipe for returning to profitability involves a mixture of job cuts and higher productivity, including the possibility of shifting some production to cheaper sites abroad. Improved innovation and greater speed in bringing products to the market are also part of its mix.

Speed and innovation have not always been Olivetti's strongest suits. Although senior managers claim to have made progress, the delayed start to mass production of its new range of portable and notebook computers, unveiled in Berlin last year, suggests the problem may not yet have been fully solved. The new models are now scheduled to reach the shops in quantity by the end of the year - three months behind schedule - by which time monthly production should be up to the 15,000 unit target figure.

In other cases, Olivetti's hands are tied by external forces, notably the need for political approval. Take its attempt to slim the workforce. Agreement was reached in January with unions and the government to reduce numbers by 2,600 this year through 3,000 early retirements and alternative public sector jobs for a further 500 employees.

Despite the agreement and the publication of a special law to that effect in June, Olivetti, like other big Italian private sector companies, is still waiting for the precise criteria for the early retirement scheme to be set by a special ministerial committee before it can come into operation. In the meantime, the workers concerned remain on the payroll.

Shifting some production to cheaper locations such as Singapore or Mexico, where Olivetti already has facilities, may also create a political backlash. The suggestion, made by Mr De Benedetti at the group's annual general meeting earlier this year, was greeted with howls of protest by politicians and trade unionists alike.

No more has been heard of it since, and a company spokes-

man confirms that a "strategic decision" has not yet been taken. Should it come, the group could find itself with a fight on its hands.

Olivetti's predicament highlights the need for Italian private industry to maintain a close relationship with the government, particularly when times are hard. It is no surprise, therefore, that much of the company's current efforts are being directed towards persuading ministers and state-owned companies to adopt a more nationalistic policy towards purchasing in information technology.

Also part of Olivetti's current strategy is greater internationalisation

Many Olivetti executives complain that the Italian public sector has not followed the example of its counterparts in France and Germany, where domestic information technology groups can rely on a steady flow of big public sector orders, according to the company.

The message may have been received. Earlier this month, the Italian post office awarded Olivetti an order for 2,800 workstations for the gradual automation of counter services. But senior Olivetti staff say the company needs many more such deals before it can count on the same strong order base as rivals like Bull in France or Siemens-Nixdorf in Germany.

In the meantime, the group is looking at possible collaborative ventures to spread the costs of developing new products and improve its competitiveness.

One such area is software and services, where margins remain relatively high compared with the pounding now being felt in mainstream computer manufacturing.

Olivetti has denied recent rumours that it is in talks with Finsiel, the software subsidiary of the IRI state holding company. However, it has sent plenty of signals that it would



Olivetti's Scarnagno personal computer factory

Alan Harper

not be averse to talks between Finsiel and Olivetti Information Services (OIS), its software subsidiary.

Finsiel is bigger than OIS and is the main agent for the Italian public sector in software development. Olivetti's bosses probably view a link with Finsiel as a useful step in improving their chances of winning big projects to restructure and modernise the Italian state sector.

Greater internationalisation is also part of Olivetti's current strategy. Earlier this year, the company turned down the chance to buy into SMT-Goupil, the bankrupt French personal computers group.

However, it is currently following up another French initiative. Olivetti has confirmed

talks with France Telecom, the French telecommunications group, on selling a stake in its Olivet added value networking subsidiary.

With sales of just L2bn last year, Olivet is only a minnow compared with a whale like France Telecom. But its expertise in building private data networks for big companies may make it an attractive appetizer for the French, who are keen to expand across Europe.

The problems facing European computer makers, and the recognition that they must team up to fight off US and Japanese competition on big projects, lie behind recent discussions between Olivetti, Bull and Siemens-Nixdorf on an "understanding" to collaborate

on big new European information technology ventures.

Loosely called the "European nervous system", such projects involve the sort of big information technology projects which will be increasingly necessary as political co-operation between European Community states improves. Such schemes could include data networks designed to track immigration across the EC, or a Community-wide health care system.

The fact that even bitter European rivals are now more willing to consider collaborating shows just how deeply the world computer industry is suffering now. Although Olivetti is losing less money than some of its counterparts, its hope is that such ventures will accelerate a recovery.

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ITALIAN INDUSTRY 7

The white goods sector is among Italy's biggest success stories. Despite a setback, it expects great things of the late 1990s

The 'Made in Italy' tag in the European kitchen

NEARLY 1m large household electrical appliances will leave the showrooms and stockrooms of electricity companies, chain stores and other retail outlets in the high streets of western European towns and cities next week. About 400,000 will have come from Italian factories.

As housewives and their husbands will have discovered when making their choice of refrigerator, dishwasher, washing machine or dryer, the "Made in Italy" tag is an ever-present feature in this sector of consumer durables.

"About 40 per cent of European production is Italian," says Mr Vittorio Merloni, chairman of Merloni Elettrodomestici, whose brands include Ariston, Indesit and Colson. "Italy became Europe's biggest manufacturer in the 1980s and continues to hold the leadership."

"Everyone says that low Italian labour costs were the reason for our success in selling white goods abroad. For years industries in other countries complained that we were dumping. Indeed, in 1975 Britain's industry minister levelled this accusation against me. Italian production costs were about 30 per cent below competitors. But we did not sell below cost. Italy's white goods makers were profitable," explains Mr Merloni.

However, the significant competitive edge on labour costs was not the only factor in propelling Italian white goods to the forefront of the European industry.

Mr Merloni says that the main reason for Italy's success can be found in the creativity and flair of the protagonists



Vittorio Merloni: expects the process of concentration in Europe will continue

who built the industry in the 1950s and 1960s.

"In contrast to the other main European countries, where white goods makers were owned by financial groups or were divisions of large corporations, personalities and their individualism were the driving force in Italy. Guido Borghi, who founded Ignis, was an inventor and was the pioneer of the use of polyurethane."

"The Fumagalli brothers at Candy were also technologically innovative. Lino Zanussi was a technocrat, the first to understand the need for mass production and to create large-scale operations," says Mr Merloni.

His firm was part of a second generation that entered the white goods sector towards the end of the boom. The other

important player to enter the scene during the 1960s was Indesit. "It produced 5m units a year at its peak, but collapsed in the 1980s," says Mr Merloni, whose firm acquired Indesit four years ago.

Merloni Elettrodomestici's acquisition of Indesit from the

competition in what Mr Merloni describes as a dramatic struggle, though the advantage has been reduced. "The gap between Italy and the rest of Europe in terms of production efficiency was enormous in the 1970s. But others have caught up during the past

Mr Merloni says that the main reason for Italy's success can be found in the creativity and flair of the protagonists who built the industry in the 1950s and 1960s

official receiver in late 1987, to make it the largest Italian-owned company in the industry, was one of several operations that has reshaped the white goods sector. Three years earlier Sweden's Electrolux acquired control of Zanussi, after the Italian firm had run into difficulties.

"The struggle for supremacy has been waged in Italy. Electrolux became Europe's largest white goods maker when it acquired Zanussi. And Whirlpool reached the world number one ranking by buying Philips-Ignis," says Mr Merloni. He expects that the process of concentration in Europe will continue. "Last year 15 groups had 90 per cent of the market. Four or five groups will share 90 per cent of the business at the end of the century," he predicts.

Italy still keeps an edge over

20 years. There has also been a decline in the creative edge, but much less.

"Italian success forced everyone to see that elegance in design is a crucial factor. Now all white goods makers have their own designers. Open System Ariston has influenced designers for the past decade, and the completely white 'Margherita' range continues to be fashionable seven years after its launch."

The visual appeal of Italian appliances and their highly competitive prices explain a ratio of exports to imports that over recent years has consistently been just over 4 to 1. Exports last year totalled L5,927bn while imports were L1,446bn. Italian manufacturers' total sales amounted to L8,270bn, so exports represented nearly three-quarters of turnover.

However, design and price are not enough on their own. "The consumer is looking for functionality and reliability. Ease of operation is fundamental, and so also is a choice of materials that combines design and performance," notes Mr Merloni.

He says that consumer attitudes towards their large domestic appliances have changed considerably over recent years. "The consumer recognises that what he buys will have a life of between seven and 10 years, and he is happy to change after this period. But in the meantime he will not accept the inconvenience and cost of calling the maintenance man. This has led to a well-defined design approach that builds specific reliability into products."

The application of such concepts shows the greater sophistication in design, production and management in the Italian white goods sector. And the individual entrepreneur can only play a small role in the complexity of decision-making today, as the reshaping of the industry underlined during the 1980s. "Individualism counted before; now the business is a team affair," comments Mr Merloni.

And the teams that are currently engaged in running the companies that comprise Italy's white goods sector face a tough task. Concentration has not improved corporate bottom lines. Indeed, profits have dropped.

"Prices have not kept pace with inflation. Manufacturers have been willing to sacrifice price in order to keep market share. Another factor has been concentration in the retail sector. The bargaining power of retailers has increased and

"He will not accept the inconvenience and cost of calling the maintenance man"

this has limited the possibility of recovering manufacturing cost increases through price rises.

Mr Merloni expects that the situation will become even harder in the next two to three

years, with thin margins being trimmed still further. However, he believes that great opportunities will arise in the second half of the 1990s.

"Manufacturers have been willing to sacrifice price in order to keep market share"

"Western Europe's 340m inhabitants bought 41m large appliances last year, while eastern Europe's 450m bought only 25m. In the next five to 10

years the total European market will be between 80m and 90m appliances," forecasts Mr Merloni.

Italy's white goods makers have already sold more than 4m appliances to former eastern bloc countries, either directly or through German brands or distributors. Mr Merloni believes that the Italian industry is well-placed to benefit from the development of these economies.

When this happens, continental consumption and production figures are likely to show an even greater imbalance in Italy's favour. Last

year sales of white goods in Italy, excluding microwave ovens, totalled just 6m. This figure was significantly lower than Germany, with nearly 10m, France and Britain, and represented less than 15 per cent of the total western European market. Yet Italy makes 40 per cent of total production.

In spite of the difficult times that it is facing, the Italian white goods industry is strongly placed. Past achievement suggests that it will continue to be a formidable performer in the future.

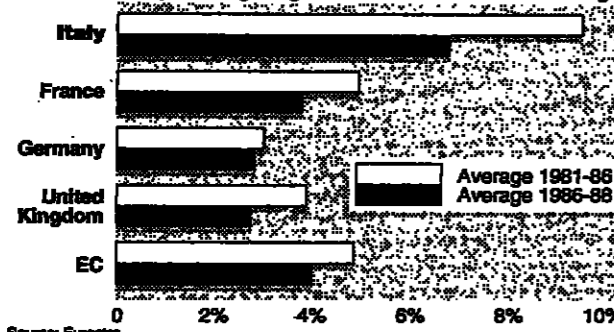
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Casario nuclear power plant

Government aid to manufacturing

as a percentage of gross value added in manufacturing



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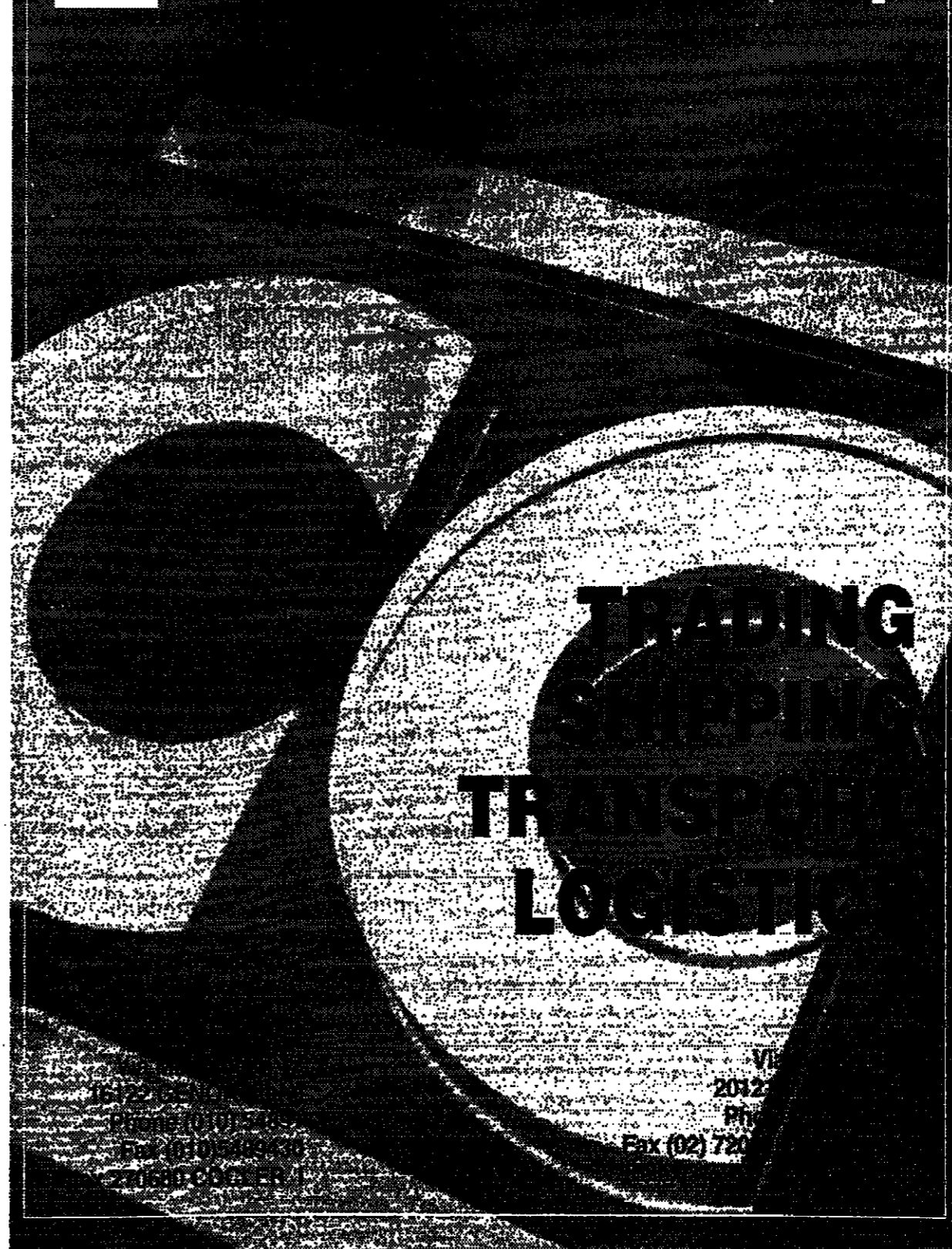
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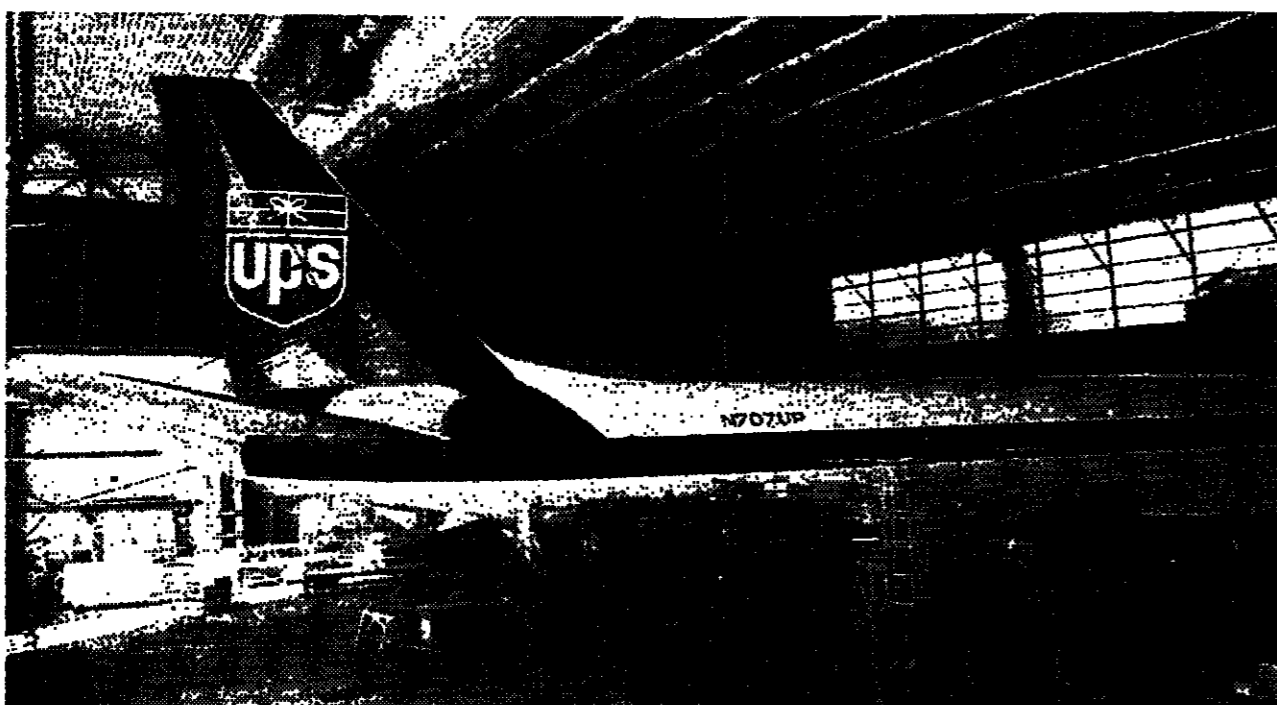
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ITALIAN INDUSTRY 8



An Alenia DC8 in cargo configuration

Alenia is Italy's biggest aircraft and defence electronics group

A finger in every pie

DUBBED "the mercenary" of international aerospace by its critics, Alenia, Italy's leading aircraft and defence electronics group, has certainly shown an ability to keep a finger in virtually every big world aerospace pie.

Formed last December from the merger of the Selenia electronics and Aeritalia aircraft subsidiaries of the IRI state holding company, Alenia collaborates in some form or another with almost all the world's big aircraft makers.

It is a major sub-contractor for Boeing's 767 airliner and for the new 777, while also working closely with McDonnell Douglas on the MD11 and MD80. In Europe, it has gradually grown closer to the Airbus consortium, to which it is to supply fuselage parts for the new A321.

Meanwhile, it is partnered with Aerospatiale of France and Dasa of Germany on developing a new regional jet, to seat between 100 and 120, and is one of the participants in the new European Fighter Aircraft (EFA) consortium.

However, it is Alenia's links

with Aerospatiale in the ATR regional turbo-prop joint venture which has been absorbing most of its attention of late. It has been stung by the decision of Sir Leon Brittan, the European Commissioner responsible for competition policy, to block the planned Franco-Italian takeover of de Havilland of Canada.

Alenia's biggest venture since its creation now looks distinctly grounded. The

Alenia has been stung by the decision of Sir Leon Brittan, the European Commissioner for competition policy, to block the Franco-Italian takeover of de Havilland of Canada

purchase of de Havilland, which is owned by Boeing, was a vital step in the ATR partners' plans to build their market share for small turbo-prop aircraft. Although the ATR 42 and the ATR 72 - the two models in the range - have won 329 orders and 120 options, industry sources say they are being sold at a considerable loss.

Alenia denies the claim, and

presents the ATR project as one of its biggest successes. However, the insistence of the reports, coupled with the de Havilland disappointment, has left it visibly on the defensive.

Its position has been further weakened by declining profitability and persistent criticisms that the Selenia-Aeritalia merger has not been pushed through rigorously, with duplication at all levels. Significantly, the payroll has

edged up, rather than down. An Alenia spokesman admits the merger is by no means complete on the operational level and further work is still required to develop savings and synergies within the group. However, Alenia maintains that, at senior management level, the benefits of the match are already evident.

The need for financial strin-

gency has grown this year as a result of the sharp decline in defence orders which Alenia has experienced in line with most other big aerospace and defence electronics groups.

Net profits at parent company level in 1990 slumped to L30.3bn (£13.9m) from L56.1bn in 1989, despite a surge in sales to L3,703bn from L2,564bn. As a result, Alenia's dividend of L20 a share represented a cut of almost 50 per cent compared with that paid by Aeritalia in 1989.

Matters worsened in the first six months of this year, when gross earnings at parent company level amounted to just L10bn. Sales, measured by value of production, amounted to L2,650bn in the first half and should be around L5,000bn for the full year.

Alenia blamed the decline on the continuing drop in defence orders and the slower growth for civil airline and space projects, as well as delays in receiving the go-ahead for some civil business.

Military projects remain at the heart of its problems as orders shrink under declining

defence budgets. Funding difficulties for the Italian air force have put a ceiling on the number of Tornado jets being purchased, and there are doubts about how many AMX light attack aircraft will be bought from the partnership between Alenia and Embraer of Brazil.

Prospects for the EFA are also unclear. Although urgently needed by the Italian Air Force to replace ageing equipment, doubts remain about the future of the project itself, let alone how many aircraft the Italians might buy.

Until recently, a similar situation faced Agusta, Italy's other big aerospace concern. The main venture for the company, which is part of the EFIM state holding concern, is the EH101 helicopter, being produced in collaboration with Westland of the UK.

The project has been beset by delays on the British side and spending worries among the Italians. However, some of the problems have recently been lifted following last month's announcement by the British Navy of an order for 44 helicopters, and the expectation that a memorandum of understanding on financing for the project should be signed by the end of this month.

That should be followed by a further memorandum of understanding in November, which will open the way for full-scale production of the EH101. In the meantime, the Italian Navy is expected to order 30 to 36 units, while Canada should take 50 units. And once the formal commitment production of the EH101, conceived as a naval helicopter, is made, the partners can turn their attention to potentially lucrative civilian variants.

There are a number of other bright spots on the aerospace scene. Electronics in particular, concentrated in the former Selenia group, continues to flourish.

Significant orders this year have included a \$90m contract to supply radar equipment for air traffic control in the Soviet Union. The deal, awarded to the Buran consortium in which Alenia has a 49 per cent stake alongside various Soviet groups, could eventually involve updating air traffic control facilities across much of the country with a potential value of up to \$2.4bn.

And Alenia's standing in electronics hardly suffered earlier this year when it slipped out that the portable landing radar used both by US President George Bush and Soviet leader Mikhail Gorbachev was



Fausto Cerelli, Alenia's chairman

Alenia-made.

The group has also expanded its activities on the space side. Combined with Aerospatiale and Alcatel Espace of France, it spent \$182m earlier this year on a 49 per cent stake in Space Systems/Loral, the satellites business controlled by Loral, the US defence electronics group.

Together, the four partners will form one of the world's biggest civil communications and weather satellite

operations, with 7,800 employees and joint sales of \$1.5bn.

The deal should help the European companies provide turnkey communications packages, which will be able to provide customers with satellites, control units, earth stations and related services.

There have even been some prestige points on the aircraft side, notably the first delivery of 10 G222 transport planes to the US Air Force. The order is part of a multi-year contract

covering 10 aircraft, further options, training and maintenance.

Alenia has consolidated its position in the US by buying the remaining 40 per cent share in Dea Howard, the Texas-based aircraft converting and refitting specialist. The company is currently engaged in a major contract to re-equip 40 Boeing 727 jets for the UPS parcels and delivery group and has another UPS order to update DC8 cockpits.

In common with some other Italian state industries, Ale-

The problem is its apparent reluctance - or inability - to rationalise

nia's main problem remains its apparent reluctance - or inability - to rationalise. Such a strategy, desirable after any merger, has become all the more pressing given the continuing downturn on the military side.

Instead, Alenia's priority still seems to be gaining business, from whatever quarter, with profitability not always the most obvious determinant. And although the group's mainstream subcontracting work on the aircraft side at its plants around Naples remains highly competent, it is hardly at the leading edge of world aerospace. But better to have work, and keep the plants occupied, rather than lying idle, is probably Alenia's maxim.

Haig Simonian



The 79,000 sq metre plant at Treviglio can produce up to 170 diesel engines every day

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GRUPPO IRI FINMECCANICA

SOUTH KOREAN FINANCIAL MARKETS

SECTION IV

Tuesday October 29 1991



There is a consensus in South Korea on the need for financial reform but much less agreement on the

means and pace of change. Plans issued by the government reflect a fear of the destabilising effects that financial deregulation may bring to the economy. John Ridding reports

Pressing need for changes

IN the quiet hills of Kwachon on the outskirts of Seoul, home to South Korea's economic ministries, bureaucrats have been drawing up plans to reform the country's ossified financial system.

From the freeing of interest rates to the easing of controls on foreign exchange flows and from the opening of the stock market to the liberalisation of the securities industry - a flurry of proposals have emerged from the ministry buildings over the past few months.

Such activity reflects a pressing need for change. While the country's manufacturing sector has grown by leaps and bounds to propel Korea to the ranks of the industrialised world and the status of 12th largest trading nation, its financial markets, stifled by government control and regulation, remain underdeveloped.

But while there is a consensus on the need for financial reform, there is much less agreement on the means and speed of change. The various plans issued by the Korean government reveal a cautious, step-by-step approach to reform. They reflect a fear of the destabilising effects that financial deregulation may

bring to the Korean economy.

"We have to reduce as much as possible the shock to the economy," says Mr Rhee Yong Man, South Korea's finance minister. He argues that the damaging side-effects of liberalisation, which have followed financial reforms elsewhere, from Japan to the US and Latin America, necessitate a gradual approach.

But trading partners, in particular the US, have attacked the pace of reform. "South Korea clearly lags behind the international consensus on the liberalisation of financial services," said Mr Olin Wethington, assistant US treasury secretary, on a visit to Seoul in September. As a result, financial issues have come to dominate the list of trade disputes between the two countries.

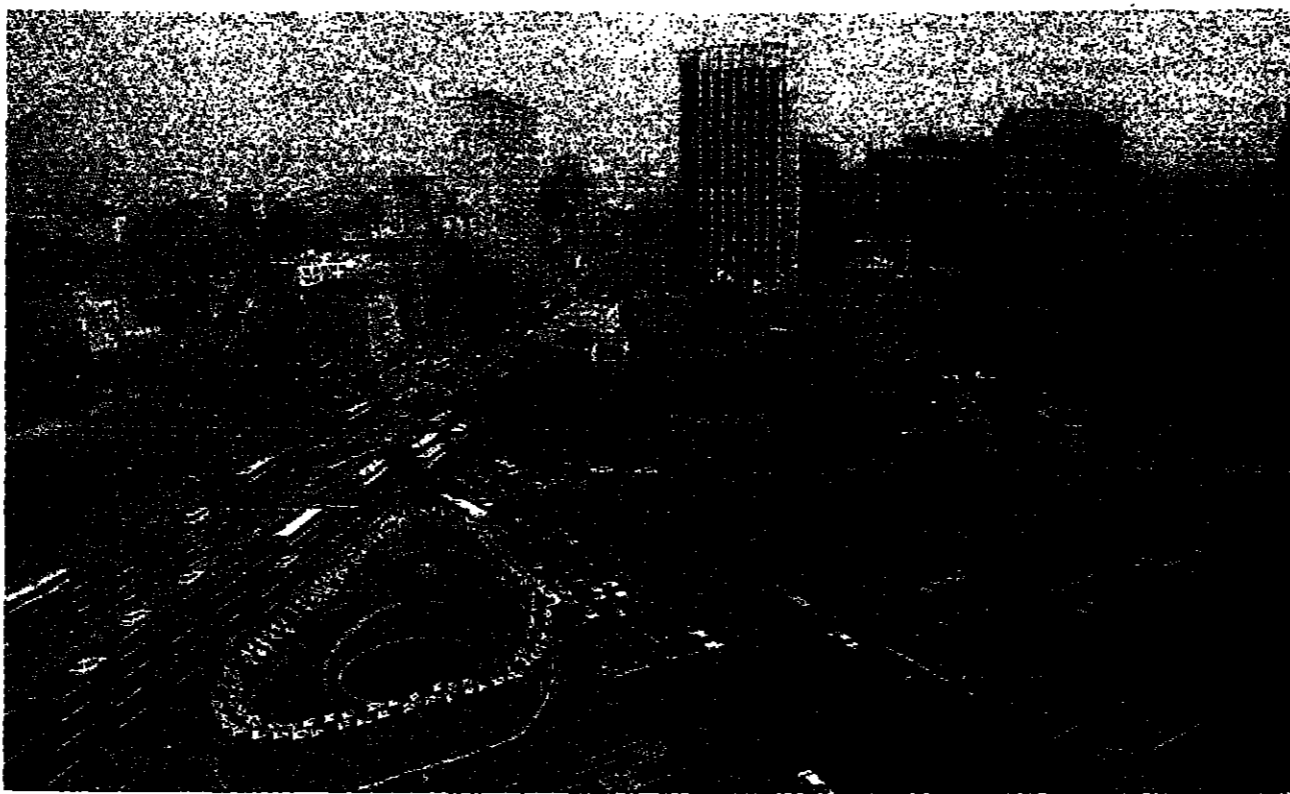
Even within the South Korean government and industrial circles, there are advocates of more rapid change. The EPB, the top economics ministry, has championed a faster approach to interest rate deregulation. Several senior businessmen including Mr Kim Mahn Jae, chairman of Samsung Life Insurance, one of Korea's biggest companies and finance minister in the 1980s, believe that market forces will themselves lead to an acceleration of the process of reform and force the government's hand.

The need for financial reform springs from several sources. Most fundamentally, the Korean economy has outgrown the system of credit control and government allocation of financial resources which have characterised its post-war industrial policies.

The economy is now too complex to be directed by bureaucrats supplying subsidised loans to selected strategic industries. More efficient and more equitable allocation of funds requires an increased role for market forces.

The marginal cost of capital, particularly for small and medium-sized companies, is one of the highest in the industrialised world. Nominal market interest rates of 20 per cent and real interest rates of about 10 per cent reflect, in part, the inefficiencies of Korea's financial intermediation.

Without reform, the government may also find itself losing control of the money supply. The falling share of total



Seoul: a flurry of proposals from the freeing of interest rates to the easing of controls on foreign exchange flows

deposits held by the 11 nationwide commercial banks - the traditional mechanism for the government's direct credit control - makes the current interventionist approach much more difficult.

As a result, there is a need to increase the role of open market operations, discount rates and other tools of indirect monetary control. But the institutions necessary for this shift, in particular the government bond market, are unestablished. They will remain so until interest rate controls are dismantled.

But perhaps the most pressing reason for financial reform lies in the internationalisation of the Korean economy. Increased capital flows in and out of Korea, resulting from increased trade and greater participation in international money markets, require eased controls on foreign exchange.

Without liberalised interest rates, such an easing would bring impossible problems of monetary control.

At the corporate level, too, there are pressures for liberalisation. Foreign financial institutions are pressing for increased access to Korea's potentially lucrative banking and securities markets. To ready their cossetted institutions for the foreign onslaught and to prepare Korea's own companies for expansion overseas, the Korean government is looking to deregulation and increased competition as a means to enhance efficiency.

But despite this host of imperatives for reform, there are a series of obstacles and concerns which have hitherto stayed the government's hand and which continue to slow the process of change.

On one hand, the government argues that the country's economic difficulties demand caution. In particular, it cites a rate of inflation which is nearing double digits and the high cost of capital.

"The chronic excess demand for money in Korea means that speedy deregulation would create cost-push inflation," says Minister Rhee. It would also raise financing costs for Korean industry at a time of significant capital expansion. This latter factor has ensured that the chaebol - the powerful conglomerates which dominate the economy - are seeking to slow the process of reform.

At the same time, there are fears that Korean financial institutions will suffer as a result of market deregulation. In particular, the commercial banks, which have traditionally acted as passive conduits for government credit and which are saddled with inefficient management systems and non-performing assets, will find it harder to cope in a more competitive environment.

These concerns are evident in the various plans announced by the Ministry of Finance. The process of interest rate deregulation, cornerstone of financial reform, has been staggered over a seven-year period with loans to be freed before deposits and long-term rates before short-term ones.

"We have to take into account the profitability of financial institutions and prevent the phenomenon of funds

becoming very short term," says Mr Oun Song Sung, councillor to the minister of finance.

Similar caution is reflected in plans to open the stock market to foreign investment. Under the terms of a schedule announced in September, foreigners will be restricted to owning a maximum of 10 per cent of the shares of companies quoted on the Korean stock exchange.

Such a cautious approach has raised a series of concerns from trading partners and from members of Korea's financial community. They question the wisdom of a staggered process of reform because it will introduce a series of further distortions into the economy.

More fundamentally, they question the Korean government's commitment to reform. After all, economic officials say that the current economic environment with rising inflation and a ballooning trade deficit - is even worse than in 1989 when a previous attempt to liberalise interest rates was aborted.

But the government rejects such thinking. "We are past the point of no return," says Mr Kim Kun, governor of the Bank of Korea. According to Mr Rhee: "The deregulation of interest rates may be accelerated depending on economic conditions. But there is no possibility that it will be prolonged."

In practice, however, the government may find that the process of financial reform takes on a momentum of its own. "I believe that liberalisation will come faster than anyone expected," says Mr Kim of Samsung Life.

He argues that the freeing of long-term interest rates first and the creation of a large interest rate differential between the short- and long-term money markets will cause a flow of funds to the latter. With the freeing of interest rates on CDs and debentures earlier this year, the process has already started.

In such a situation, the financial authorities could be forced to accelerate the freeing of short-term rates ahead of schedule. As ever in Korea, change may come more rapidly than expected.

"We have to take into account the profitability of financial institutions and prevent the phenomenon of funds

IN THIS SURVEY

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■ **Bank of Korea:** reluctant to lift ceilings on CD issues by foreign banks Page 2

■ **Commercial banking:** Financial liberalisation poses a sharp dilemma for Korea's big commercial banks. Among other things, the prospect of having to compete for the first time on products and prices is daunting Page 3

■ **Securities:** Just as foreign investors are about to get their foot in the door of the Korean stock market, so foreign companies are also now prising an opening into the securities industry Page 3

■ **The stock market:** When the Seoul stock market opens for business next year it will also, for the first time, be opening its doors to direct foreign investment. It is not a dramatic opening: more a cautious crack Page 4

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SOUTH KOREAN FINANCIAL MARKETS 2

FOREIGN BANKS

Battering rams poised

FOREIGN banks are rarely ever so foreign as they often seem in Seoul. Korea welcomed them initially as providers of foreign capital and they earned easy profits while helping to finance Korea's chronic current account deficit in the 1970s and early 1980s.

Yet after Korea's current account swung suddenly into the black in 1986, the foreign banks equally suddenly found themselves without a clear role to play, locked on the periphery of mainstream banking in Korea while struggling to find a way in. This peripheral status has not been helped by the subsequent plunge of Korea's current account into the red.

Korea has other ways to raise foreign exchange and its net debt amounts now to just 4 per cent of GNP, compared to 39 per cent in 1985.

The result is a lot of dissatisfied foreign bankers, sitting on the edge of a potentially great market yet unable to expand their businesses rapidly. Korea often appears to take steps to keep foreign banks just barely alive in Seoul only in response to heavy-handed pressure from the US and the EC to be nice to its banks.

The Korean press is quick to point out that Seoul's 52 foreign banks are obviously privileged and therefore have no grounds for complaint, since they finish each year with rates of return on capital and assets that dwarf the average, although not the best, Korean commercial banks. Last year, foreign banks earned an average return on assets of 1.83 per cent, compared to 0.89 per cent for Korea's nationwide commercial banks.

Economic nationalism may lie behind the restrictions that the Korean government has placed on foreign banks, which make it difficult to raise local won currency. Yet the deeper problem is that foreign banks are free market animals trying to enter a market that is heavily regulated. Their competitors in that market, the big Korean commercial banks, have been crippled financially and managerially by decades of government domination.

For this reason, foreign banks, and their home governments, are also the biggest proponents of financial liberalisation for all. A deregulated

market would level the field and remove underlying reasons for restricting foreigners.

Foreign banks built up their Korean business initially on the basis of dollar-won currency swaps, under which the Korean government provided won while guaranteeing an exchange rate and a fixed margin. It was an easy way to make money, especially since the Korean government bailed out the foreign banks when the occasional borrower went bust.

The provision of won loans to cash-hungry Korean companies brought customers through the door who also needed foreign exchange and trade financing services, sometimes enabling the banks to book bigger profits offshore, where tax rates were lower.

After the Korean government adopted the principle of national treatment for foreign banks in 1984, however, the swap ceiling, and therefore easy access to local currency, was progressively cut back. At the same time other opportunities to raise won on a large scale were heavily restricted, in effect putting a squeeze on the banks.

The restricted access to won also squeezed the local operations of foreign companies who needed working capital. Korean banks would not lend to them because even big international companies had no credit rating in Korea.

The foreign banks, supported by their governments, are now aiming their battering rams at several key points:

• **Certificates of Deposit:** Negotiable CDs have saved the foreign banking sector by allowing them to raise money at competitive rates since the instruments were authorised in 1986. Ceilings on the issue of CDs by foreign banks have been progressively raised, in tangent with ceilings imposed

on domestic banks, and was this month lifted to 200 per cent of capital from 175 per cent.

The Bank of Korea is reluctant to lift the ceiling further in isolation of other reforms, because CDs undermine the controlled interest rate structure. Korean commercial banks are forced to pay market rates to issue CDs, while many of their loans are issued at below market, controlled rates.

• **Call Market:** Foreign banks are last in the queue to borrow money on Korea's interbank market, and they pay interest

in spite of a nettlesome and costly requirement that it bring Y3bn of fresh capital into the country for each new branch, a requirement not applied to Korean banks. Citibank has established nine branches so far, and is expected to turn a profit for the first time this year. It's medium-term goal is to establish a network of 25 branches. Korea, however, seems to have accepted Citibank as a legitimate competitor and licensing and other procedures for new branches are easier than before.

Foreign banks share of Korean banking business (%)						
	1986	1987	1988	1989	1990	June, 1991
Total assets	8.9	7.7	8.4	8.7	8.2	8.0
Total loans	10.9	10.2	8.5	6.8	6.0	6.6
Total deposits	1.7	1.5	1.1	0.9	1.0	0.9
Return on assets	1.19	1.42	1.6	1.83	1.39	-
Av. return big 5 Korean banks	0.15	0.16	0.38	0.79	0.68	-
Net earnings (units won 100m)	801	1,068	1,386	1,434	1,328	-

Source: Ministry of Finance

rates that are anywhere from two to five percentage points higher than their Korean counterparts. Most bankers no longer believe this discrimination results from central bank "window guidance" but is rather a result of collusion among Korean banks. The government confirms this.

Mr Kang Man-soo, director-general of the International Bureau at the Finance Ministry, says the ministry is committed in principle to providing equal access to foreign banks, but he also points to anomalies that will prevent the market from functioning properly.

Because the Korean banks lend at controlled rates, effectively 15 per cent, he says, they cannot afford to pay as much as foreign banks, which lend at an effective rate of closer to 20 per cent. If allocated by price alone, all funds would flow to the foreign banks and domestic banks would be left with nothing. It is therefore perfectly rational, and not simply anti-foreign, for domestic banks to act as a cartel and keep funds to themselves. Only if interest rates ceased to be controlled would an equitable solution likely be reached.

• **Branching:** Citibank is proceeding aggressively to establish a chain of retail branches

• **ATM Access:** Citibank has been denied access to the nationwide automatic teller machine network, which would allow Citibank customers to withdraw money from cash machines anywhere in the country. Just like Korean commercial bank customers, the Korean banks are understandably, if unforgivably, reluctant to allow access to its cash distribution system to a competitor who does not suffer under the same type of government regulation. This would make it even easier for Citibank to attract customers with its more flexible product mix, generally higher interest rates, more efficient service, and easier access to credit for some of its customers. The Ministry of Finance is arranging talks between foreign banks and Korean banks to work out a solution.

Do not, however, hold your breath. Mr Kang says the foreign banks can play an important role in Korea by introducing modern methods of financial and risk management. Yet true national treatment for foreign banks will likely have to await the liberalisation of interest rates and other banking reforms.

Steven Butler

INTEREST RATES

Intense debate still rages

GOVERNMENT fixing of bank interest rates at unrealistically low levels is a key reason for the backwardness of Korea's financial system. And, as a matter of course, decontrolling interest rates is prerequisite to significant financial reform.

In small ways the process has already started. Yet even though a four-stage liberalisation plan has been announced, the debate still rages over the pace and direction of the strategy, over whether any significant liberalisation will take place at all, or whether the government will in the end lose control and be overwhelmed by market forces.

The debate is intense because, if mishandled, interest rate decontrol could bring utter chaos to financial markets and destabilise the banking system. The reforms would also mark a shift in development strategy. Korea's rapid economic growth has been underpinned by a controlled financial system in which the government channelled foreign and domestic savings through government-owned commercial banks (later privatised), lending at below-market rates to strategic industries.

The Korean government, however, is being led inevitably towards liberalisation for three reasons.

• **The central bank's traditional methods of direct control of the money supply through commercial banks is becoming less and less effective as the financial savings of individual Koreans increase.**

Funds would become far more widely available

The commercial banks' share of the deposit market has fallen from about 60 per cent a decade ago to 35 per cent today as savings have drifted steadily into higher-interest, short-term savings instruments offered by a range of financial intermediaries, from short-term finance companies to life insurance companies.

"It is market forces, not the government, which is driving deregulation," says Mr Choi Suhm-soo, an economist at the Korea Development Institute. "If the government postpones liberalisation of the banks, they eventually will be unable to control anything."

Liberalising bank interest rates would allow savings to flow back into the banking system, although bank margins would decline and the government would also have to develop mechanisms to control the money supply by influencing market rates.

• **The inefficiencies of resource allocation, and the management of the financial system, are becoming more apparent.** The government must now allocate credit to small and medium companies by quota, while about three-quarters of Korea's 120,000 small and medium companies have no access to bank credit at all. Large manufacturing companies, which have much easier access to foreign and domestic capital markets, take the lion's share of cheap bank funds. In a liberalised environment, bank interest rates could be expected to rise, but funds would become more widely available. Banking practices would also have to change if a market-efficient allocation were to be achieved.

• **Korea's trade partners are applying ever greater pressure to liberalise the market in order to promote opportunities for their own financial and non-financial companies.** The US and the EC have expressed dissatisfaction with the pace of reform. Among other difficulties, the current system has made it difficult for foreign banks and other companies to gain access to local currency. The pessimists about reform, the ones who see nothing happening, are mainly foreigners.

Foreign banks were able to escape the controls

They are pessimistic because reforms are opposed by big manufacturers who would see the cost of financing rise at a time when they are making heavy capital investments aimed at saving labour. Fear of harming Korea's export potential could stay the hand of the government, as it did in 1988. At that time, bank lending rates were nominally decontrolled, but the central bank reimposed controls through window guidance when rates began to go up. Foreign banks, happily enough, were able to escape the controls.

Today, with Korea's current account soaring, inflation close to 10 per cent, and interest rates already high, many argue that the economic preconditions could hardly be worse. With two national elections coming up next year, the argument runs, the government will be loath to try anything that could cause instability.

Government officials, including Mr Rhee Yong-man, minister of finance, and Mr Kim

Kim, central bank governor, however, insist the government is committed to liberalisation on its announced timetable or even faster. "You cannot go back," says Mr Kim.

Government plans to ease the pain by introducing changes gradually. Proponents of a simultaneous liberalisation for all rates lost the argument to those who wanted slow, conservative management. The government's caution has prompted some critics to charge that nothing will happen, although officials deny this.

The government studied the experience of Japan and the US and adopted several principles: long-term rates are to be decontrolled before short-term rates, and lending rates before deposit rates.

The initial rise of lending rates is expected to be moderated because banks will still have a low-cost funding base. At the same time, bank margins should rise initially, allowing the banks to be strengthened as they face the shock of further change.

By the middle of next year, certain loan rates, long-term deposit rates and certificates of deposit are to be decontrolled. By the end of 1993, all bank loan rates and corporate bonds will be freed. By 1995, government-financed loans, all deposits other than demand deposits, and bank debentures are to be liberalised. Eventually, demand deposits and all government bonds will be freed.

The second phase, critical because the bulk of loans will be decontrolled, is to be predicted on lower inflation, improved balance of payments, decreased expected returns on alternate investments, and improved ability by the government to manage interest rates indirectly.

This sounds like an impossible menu to sceptics. Yet there is a strong body of opinion which believes the government has already lost control over the pace of reform, and that the entire process of liberalisation will be completed in far less time than the six years currently envisioned.

Mr Kim Mahn-je, chairman of Samsung Life and a former deputy prime minister and finance minister during the 1980s, brushes aside the argument that the economic conditions are not yet ripe for change.

"For financial liberalisation there is no good time," he says. "My prediction is that interest rate liberalisation will proceed much faster than what the government has announced."

He reasons that, compared to Japan or the US, the interest rate spreads in Korea are far greater - 10 per cent (or zero inflation adjusted) for most deposits, compared to 20 per cent on the call market, and higher in the private loan market.

As long-term deposit rates are decontrolled by next summer, he predicts a huge shift of money into these accounts that will drain the commercial banks of low-cost funding. In order to put short-term funds back into the banking system,

KEY FACTS

Area 99,263 sq km
Population 42.8 million (1990 estimate)
Head of State President Roh Tae-woo
Currency Won (W)
Average Exchange Rate 1990 \$1 = W707.8 15/10/91
\$1 = W749.3

ECONOMY

	1990	Latest
Total GDP (\$bn)	239.8	n.a.
Real GDP growth (%)	9.0	9.1
GDP per capita (\$)	5,603	n.a.
Components of GDP (%)		
Private Consumption	53.6	
Total Investment	37.1	
Government Consumption	10.9	n.a.
Exports	31.6	
Imports	-32.2	
Consumer prices (% change pa)	8.6	9.5
Ind. wage rates (% change pa)	20.1	15.8
Ind. production (% change pa)	8.5	9.5
Reserves minus gold (\$bn, Dec)	14.8	13.3
Narrow Money growth (% pa)	11.0	17.5
Broad Money growth (% pa)	17.2	19.4
Discount rate (% pa, year end)	7.0	7.0
Money Market rate (% pa, avg)	14.0	18.4
Govt Bond Yield (% pa, avg)	15.0	16.4
Stock mkt index (% change over year)	-23.5	+0.6
Gross external debt (\$bn, Dec)	31.7	n.a.
Current Account Balance (\$bn)	-2.2	n.a.
Exports (\$bn)	63.1	64.9
Imports (\$bn)	65.1	68.4
Trade Balance (\$bn)	-2.0	-4.5
Main Trading Partners (1990, % by value)		
USA	29.8	24.3
Japan	19.4	26.6
West Germany	4.4	4.7

* = 1991 figures (GDP growth - Q1; Wages growth - March; Money growth - June; Ind. production, interest rates - July; Consumer prices, Reserves - August; Stock Market Index (Korea Composite) - % change from 5/12/90 to 15/10/91; Trade - 12 months up to March 1991.)
Source: IMF, Datastream.

the central bank would be faced with the alternatives of either pumping money out through its discount window, or moving rapidly to decontrol short-term rates as well. Given the inflationary impact of putting cheap money through the system, in reality the central bank would have no choice but to decontrol rates.

He also argues, however, that this is not necessarily a bad thing. In so far as the economy is widely seen as overheated now, with 9 per cent

growth expected this year, higher rates would cool the economy and bring growth close to the long-term potential of 7 to 8 per cent. It would dampen inflationary pressure, reduce demand for imports and thus improve the balance of payments deficit, and lead eventually to lower real interest rates.

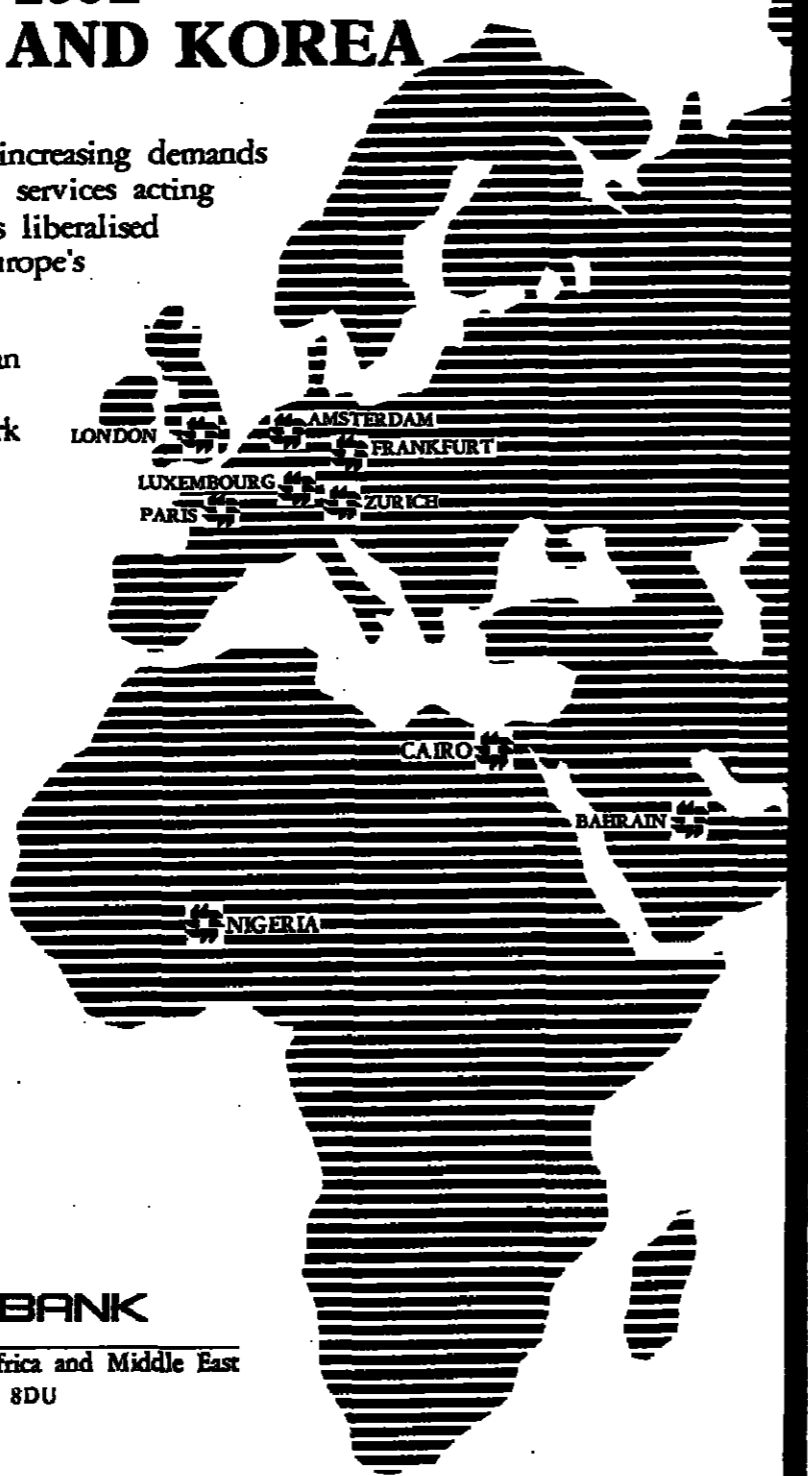
"It is painful," he says, "but a sober economist cannot tell you anything else."

Steven Butler

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SOUTH KOREAN FINANCIAL MARKETS 3

■ FOREIGN SECURITIES COMPANIES

Prising an opening

JUST as foreign investors are about to get their foot in the door of the Korean stock market, so foreign companies are prising an opening into the securities industry.

Hitherto limited to representative status, foreign brokers are being issued branch licences on a franchise-by-franchise basis. These licences allow them to conduct business in Korea, receive a share of trading commissions and to become members of the Korean stock exchange. But the privilege does not come cheap. According to regulations issued this year by the ministry of finance the establishment of a branch in Seoul requires a minimum capital commitment of 10bn won (\$13.5m). This amount will allow the foreign company to operate in one of three areas - broking, dealing and underwriting. To participate in two activities costs 15bn won and all three costs 20bn won.

For foreign companies, in particular the non-Japanese companies, which are relatively less-well capitalised, this is a substantial commitment. It is higher than the costs of conducting similar businesses in Japan, where a licence for dealing, broking and participating in underwriting costs ¥200m (\$1.54m). A host of other criteria must also be

satisfied. The company must, for example, have had a representative office in Seoul for at least two years and must have had no penalty or suspension relating to its business operations during the past three years.

This last proviso is of particular concern to the big Japanese houses which have been involved in a string of financial scandals in Tokyo. According to Dr Oum Bong Sung, counsellor to the minister of finance in Seoul, no decision has yet been taken on whether, or for how long, to exclude the Japanese houses. Nonetheless, the state of scandals in Tokyo provides a convenient excuse to delay the entry of Nomura et al into the Korean market.

To date, the Korean financial authorities have looked to Europe and the US in the issue of branch licences. Barings Securities, Jardine Fleming, Merrill Lynch and Citicorp Scrimgeour Vickers are the only foreign companies to have been given the go-ahead. A new batch of licences is due in the first half of next year.

None of the four foreign companies to be granted licences expect a quick return. "We are opening a branch in Seoul as part of a long-term commitment to the market," says Mr Philip

Smiley, Chief Representative of Jardine Fleming. "We would not expect to immediately make profits."

In addition to the costs of a licence, the foreign branches also face high operational expenses. Barings securities, which has doubled its head count to 30 people over the past year expects to have 50 employees shortly after the market opens. New office space and systems push the price up still further. The principal source of revenues for the new branches is likely to be broking Korean equity to established clients. "At first we will concentrate on broker-age business and our primary objective will be foreign institutions," says Mr Duncan Ross, chief representative of Barings Securities. "But in future we want to be a fully integrated operation, including underwriting."

But competition for brokerage will be tough, particularly given the limited scope of market opening. And while commissions may be pushed above the usual 0.4 per cent because of the initial difficulties of trading in Korea, foreign branches will have to split them with the Korean brokers which execute the trade.

Despite the high costs of market entry, however, there is a queue of for-

eign brokers seeking approval to set up branches. One explanation is that the Korean ministry of finance has been seeking to tip the scales in favour of branches as opposed to representative offices.

In particular, ministry officials say that representative offices will be banned from receiving any brokerage commissions. "Securities companies without branches will not be able to receive commissions or even be paid on a fee basis for orders they place" says Mr Kim Dae Chun, managing director of the Korea Securities Dealers Association. But he admits that such a ban may be hard to implement.

There are other advantages, too. "We will be allowed to deal directly with domestic institutions," says Mr Smiley of Jardine Fleming. "As a result, our sources of stock and our sources of information are likely to be better than if we were just a rep office."

"If we are professing to clients that we are the experts on the Korean market then we are going to have to have a presence," says Mr Ross. "Also, clients will want local execution."

But even with branch status, the foreign companies are only half the way to offering full execution. To complete the service they will also need to be members of the Korean stock exchange.

Under the terms of the industry liberalisation guidelines, this, too, is possible. But with full membership of the exchange quoted at a cool 9.7bn won, the privilege, again, comes at a cost.

John Ridding

■ COMMERCIAL BANKING

Dilemma looms

FINANCIAL liberalisation is coming in Korea and it poses a sharp dilemma for Korea's big commercial banks.

On the one hand, deregulation will give banks the opportunity to reverse the steep decline in market share they have suffered over the past decade - from 60 per cent to 35 per cent of the deposit market. They can reverse the decline because once interest rates are deregulated the banks will finally be able to offer competitive terms on deposit accounts and take full advantage of their extensive network of branches.

On the other hand, the prospect of being forced to compete for the first time on products and prices is daunting for banks that for most of the past 40 years have acted as little more than bureaucratic arms of the government - dispensing loans according to government investment priorities and earning comfortable margins on government-determined interest rates.

Management culture will have to undergo a revolution. The banks have too many branches and are overstaffed and inefficient. Margins on loans are certain to fall. Banks are only beginning to train the staff needed for proper credit analysis - virtually all loans are collateralised now. And they still have a heavy burden of bad debt to work off.

"We welcome the deregulation of interest rates," says Mr Park Yong-je, managing director and general manager at Korea First Bank. "In order to compete with foreign banks, change is inevitable," he says. But he admits that most Korean bankers regard the coming changes with a certain dread.

The dread is understandable. One of the first and most painful items on the agenda is a staff reduction of 5-10 per cent, according to Mr W. H. Kee, executive vice-president of the Korea Federation of Banks.

The commercial banks are earning just 0.69 per cent return on assets, compared to 1.93 per cent for foreign banks operating in Korea. "That is a tremendous gap," he says.

The banks are still burdened by about \$3bn in non-performing assets, a result mainly of government-directed loan programmes. This amounts to 3.6

times the average capital of the banks, or 2.2 per cent of total loans.

Even this is a vast improvement compared with a few years ago. In 1987, some 5.4 per cent of loans were non-performing. The balance sheets of the banks also improved considerably during the stock market boom of the late 1980s, when each of the banks raised W470m in fresh capital. As a result, according to the central bank, only one bank, the Korea Foreign Exchange Bank, has yet to meet capital adequacy requirements of the Bank for International Settlements.

The deregulation of interest

Hana has set up eight branches, plans 14 by the year-end, and 53 by 1993. "In terms of numbers of branches, we can't compete with existing banks," says Mr Yoon Byung-chul, president of Hana. "We will have a different strategy."

That strategy is to try to retain the high net worth individuals who were customers at KIFC, take advantage of the company's expertise in money markets, and to expand the customer base while responding rapidly to changes in markets. Mr Yoon says Hana's customers have an average account size of W80m, compared to W4m at the commer-

Market share of banks, non-banks					
	1985	1986	1987	1988	1989
Deposits					
Banks	45.2	42.3	39.3	36.1	33.1
Non-banks	54.8	57.7	60.7	63.9	66.9
Loans					
Banks	59.1	57.4	54.1	52.6	52.0
Non-banks	40.9	42.6	45.9	47.4	48.0

Source: Bank of Korea

■ KOREAN SECURITIES HOUSES

Unashamedly gleeful group

KOREAN nationalists may cringe, and monetary authorities may keep a worried eye on the exchange rate, but one group of Koreans is unashamedly gleeful about the opening of the stock market to foreign investors: the Korean securities houses.

The securities business in Korea has been terrible for the past two years. Trading volume fell by 6.9 per cent to 10.9m shares traded a day last year; by value, trading fell by 34.2 per cent to 183.7bn won a day.

The value is most important because commissions are calculated as a fixed percentage - 0.4 per cent of the value of a deal for individuals, 0.3 per cent for institutions.

This year, both volumes and value are off again, and many (if not most) securities companies are losing money.

The opening of the market is good news because foreigners are expected to spend something between 2,000bn won and 3,000bn won in the first half of next year, filling up institutional portfolios with Korean shares when the market opens to direct foreign investment for the first time.

The conditions governing the opening of the market could themselves encourage something of a buying rush when the doors open on January 1st.

Only 10 per cent of the shares of individual companies will generally be open to foreign buyers, and because the quota limit is expected to be reached rapidly for popular companies, speed is

of the essence for any investment manager wanting to balance out a portfolio with a bit of Korea.

As things stand, those orders will have to be placed directly or indirectly through Korean brokers.

That, in any case, is the happy theory propounded by the Korean securities industry. Stock prices are probably already being supported by the expected buying.

"We expect that from now on the market will steadily rise," says Mr Yang Ho-chul, senior managing director at Dungsuh Securities.

That should give the Korean companies the first decent opportunity in two years to unload the billions of dollars of shares they were forced to take on to their books in 1989 at government urging, in an unsuccessful effort to prop up the market.

Marketable securities held by the brokerage companies rose by 150 per cent from March 1988 to March 1989 to 4,967bn won, and rose again in 1990 to

6,859bn won. The figure had declined only marginally by March of this year, according to the Securities Supervisory Board.

"Under strength, Korean institutions will try to sell," says Mr Yang, who expects a temporary downturn in the market in the spring as a result.

The prospect of rising prices and increased trading volume is a particular relief because of the increased competition caused by the entry to the market of six new securities companies in recent months. The new houses have built up their staff largely by raiding the existing companies.

"We feel quite nervous about what is going on," says Mr Yang.

Most of the new entrants are converted short-term finance companies, but one is especially controversial. Korea Development Securities (KDS), a wholly-owned subsidiary of the Korea Development Bank, which is a government-owned bank that has lent long term, and taken equity stakes in

Korea's leading companies. "It is nonsense from the beginning," says one securities executive about the concept of having a government-owned broking house.

Mr Yim Yoon-shik, executive director of Lucky Securities, says: "They have some strengths, especially in underwriting business."

This is because KDS may be able to cash in on its extensive bank ties with industry to demand part of the business. Mr Yim, however, sees a clash between banking and securities industry culture. "I really don't think KDS will be very powerful in the securities business," he says.

Mr Edward Kim, international general manager at KDS, says: "Our aim is not to compete with Korean firms but to compete with foreign firms internationally."

The idea is to capitalise on KDS's international experience, and also to try to develop a long-term debt market within Korea.

Looking further ahead, the securities companies are hoping get government approval to expand into new business areas, including foreign exchange dealing, taking deposits for cash management accounts, and investment trust and management.

As Mr Yang says: "The securities business is the financial company for the 21st century."

Steven Butler

rates is expected in Korea to narrow the spreads between deposit and loan rates, as it has elsewhere in the world. In order to maintain profitability, the banks will have to increase volume, learn how to assess profitability and develop new fee-based businesses.

This will not be made any easier, even if it is pushed along by the entry to the market of two new Korean commercial banks, Boram and Hana, which are hungry to expand, and by the aggressive expansion of Citibank, which is establishing a network of branches. Shinhan, which was established in 1983 and is the most profitable of the Korean banks, is also set to jump into the fray.

Hana Bank began life 20 years ago as a non-bank financial institution under the name Korea Investment & Finance Corporation. With the prospective liberalisation of interest rates raising questions about the future of short-term finance companies, KIFC accepted a government invitation this year to convert to a bank, which allows it to develop a branch network while accepting a range of government controls.

The entry of ambitious banks such as Hana, Boram, and Citibank, however, almost guarantees that if the big banks do adopt a conservative strategy, they will pay a big price: the continued decline in their share of the banking market.

Steven Butler

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SOUTH KOREAN FINANCIAL MARKETS 4

WHEN the Seoul stock market opens for business at the beginning of January next year, it will also, for the first time, be opening its doors to direct foreign investment.

It is not a dramatic opening; more a cautious crack. But as the largest market in the world still closed to foreigners, and as a window to one of the world's most dynamic economies, the liberalisation of the Seoul bourse is drawing the interest of the international investment community.

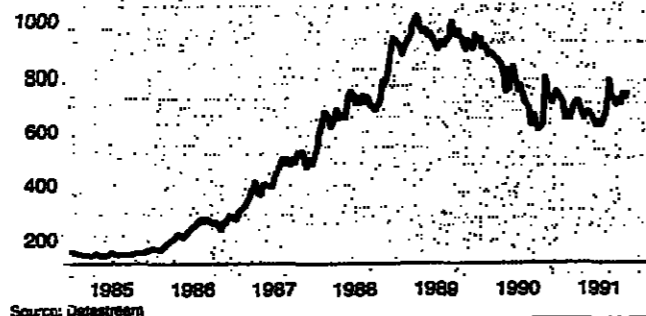
In line with the conservative stance adopted by the Korean government on most issues of financial reform, the opening of the stock market is limited. Foreigners will be only allowed to buy up to 10 per cent of the outstanding shares of most companies on the stock exchange.

For companies involved in so-called "sensitive" industries, which range from mining to financial services, the limit will be 5 per cent. For a few others, such as Kepeco, the giant electricity company, no foreign ownership will be allowed at all. For foreign individuals, there will be a uniform ownership limit of 3 per cent of outstanding shares.

Moreover, outstanding euro-market issues, such as convertible bonds and bonds with warrants, will be included in the ownership ceilings, as will existing direct strategic investments such as joint ventures or minority equity participation. What this means, for example, is that a company such as Kia Motors - which is

Stock market performance

Korea - composite price index



Source: DataStream

already 10 per cent owned by Ford of the US and 8 per cent owned by Mazda of Japan - is already in breach of the 10 per cent limit.

Seoul's ministry of finance says that in such cases permission can be obtained from the Securities and Exchange Commission to raise foreign ownership ceilings. But new limits will be assessed on a case-by-case basis, raising concerns about consistency and the transparency of the process.

Korean officials defend the limited scope of the opening by emphasising the problems which would result from large inflows of foreign capital. They argue that the ownership limits will be further expanded as the impact of foreign ownership is digested.

"This is just the first step," says Dr Oum Bong Sung, counsel to the minister of finance. "The market will gradually be opened wider on a step-by-step basis." For the

moment, however, and given the various restrictions, the maximum foreign capital which can flow into the market after its opening is about \$6.7bn. How much of this will enter the exchange depends on the attractions of the underlying market and the practicalities of trading Korean shares.

On the first count, the Seoul stock exchange is clearly not the go-go market of 1987 and 1988 when the index nearly doubled in successive years on the back of a dramatic export-led economic boom. Since then, economic worries have brought the index firmly back to earth. From a peak of 1,007 points in April 1989, it has slumped to



Seoul stock exchange: most analysts predict a run up in values

THE STOCK MARKET

Cautious opening

a current level of about 715. Along with Jakarta, it is the only regional market to have fallen this year.

But for new buyers, of course, this is potentially good news. The market now has a weighted average price-earnings ratio of about 20 times, cheaper than Japan and Taiwan. Measures such as price-to-book value and price-to-cash flow reveal a still cheaper market.

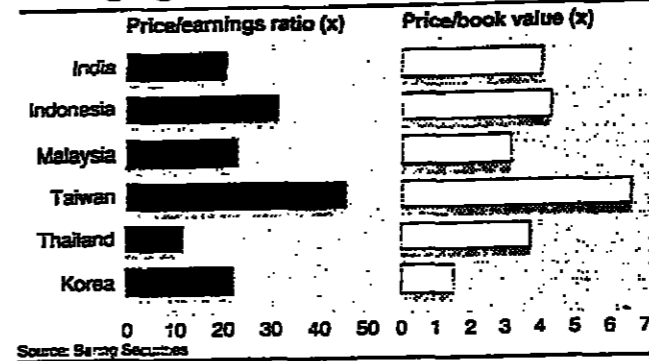
By the time it opens, it is likely to be less cheap. Most analysts predict a run up in values before the end of the year as local investors anticipate the boost of an influx of foreign capital. There is the

added caveat that, following a rapid run up, there may be quick local selling once the market is open.

According to Mr Ho C. Yang, managing director of Dongsuh Securities, Korea's second largest securities company, most of the large local brokers are seeking to rid themselves of equity which they accumulated over the past 18 months in an attempt to stabilise the falling Korean market.

But for most foreign investors, considerations are longer term. Consequently, it is the broader economic and corporate prospects which are of greater importance in determining the attractions of the

Emerging markets



Source: Barry Securities

the corporate level. While many companies are facing harder times, due to reduced competitiveness in international markets and a domestic financial squeeze, many have good prospects. This is not just the case for giant blue chips such as Samsung Electronics and Hyundai Motors, but also for several of the lesser known, smaller companies.

"There is tremendous value to be found among smaller companies," says Mr Peter Irving, managing director of Korea Schroder Fund Management. But he adds that high levels of gearing place a premium on a careful examination of fundamentals.

That foreign interest exists can be seen from the existing equity-related instruments. Convertible bonds, bonds with warrants and unit trusts continue to trade at a premium to underlying shares, albeit less than the excessive levels of 1988 and 1989.

A similar story is found at

In anticipation of foreign demand, a number of new investment vehicles are being created. Warburgs, for example, is launching a \$100m investment trust for the Korean market to be managed by Schroders Investment Management.

But whether the attraction of the Seoul exchange translates into a successful market opening depends crucially on the practicalities of trading.

In this respect, the setting of ownership limits has fostered a series of difficult issues. In particular, and after some warring, the ministry of finance appears to have decided against allowing over-the-counter trading or the establishment of a foreign board. As a result, trading in the most popular issues is likely to become rapidly congested.

There are also concerns about the practicalities of investment. From minor hindrances such as the use of identity cards to more substantial worries such as the ease of repatriation of capital and dividends there remains a number of grey areas.

Mr Kim Tae Choon, managing director of the Korea Securities Dealers Association and head of a task force which is preparing the mechanisms for market opening, believes the system will be ready. "We are at the stage of confirming the procedures," he says.

Just how well these procedures work, however, will be tested in two months.

John Ridding

INTERVIEWER: The past few months have seen several announcements regarding the liberalisation of Korea's financial markets. These include the deregulation of interest rates, the opening of the securities market and industry and the easing of regulations on foreign exchange movements. But all the proposed reforms are very gradual. What is limiting the pace of liberalisation?

MR RHEE: There is a need to actively pursue a policy of financial liberalisation, including the deregulation of interest rates, in order to back our economy's stable growth and to effectively respond to the movement towards financial internationalisation.

Factors slowing down the pace of liberalisation include inflation and a deficit on the balance of payments. The stability of the economy is an important prerequisite for the

Extracts from an interview with finance minister Rhee Yong Man

Financial liberalisation

successful implementation of financial liberalisation.

Our priority is to focus on our economy's structural problems that impede the liberalisation process. Efforts to strengthen commercial management of financial institutions, including promotion of healthy competition, will be stepped up in order to absorb the shocks accompanying liberalisation.

Also targeted for reform are bank lending practices based on collateral rather than credit ratings, collusion of financial institutions and the loose attitude taken by the institutions' managements.

INTERVIEWER: In the past,

the government has used its control of the financial system to regulate investments in the real economy and thereby to promote Korea's economic development. Is the government concerned that the process of financial liberalisation will reduce its control of the economy?

MR RHEE: Financial liberalisation is a process to have market forces play a greater role in the economy. In essence it is a process to weaken direct government control in order to increase efficiency.

Therefore, I believe the government has to accept the fact that its control of the economy will be weakened.

Nonetheless, the responsibility for achieving certain economic goals remains with the government, regardless of the progress of financial liberalisation. In this regard, the government will endeavour to develop a wide range of indirect and market-oriented policy tools in the place of direct control.

INTERVIEWER: What are the main economic costs and benefits which will arise from financial liberalisation?

MR RHEE: Benefits would include increased efficiency in the financial sector through the strengthened role of financial intermediation and the encouragement of innovation.

It would contribute to the development of the real sector by enabling the efficient allocation of funds.

It is also true, however, that this process could include considerable costs to an economy as is evident in many foreign countries' experience.

In general, financial liberalisation increases instability in the system. It may aggravate the financial conditions of some institutions as a result of increased competition, higher interest rates accompanied by shortened maturity and general problems of market failure.

There are some concerns that financial liberalisation will lead to higher interest

rates in the early stages which will hurt manufacturing industry. However, the alternative to interest rate liberalisation is controlled interest rates. This would discourage savings and provide financial institutions with less incentives for strengthening their competitiveness.

INTERVIEWER: Does the Korean government feel there has been too much foreign pressure for liberalisation of Korea's financial markets? And does the Korean government feel that it has now done enough to satisfy the demands of trading partners?

MR RHEE: I would like to make it clear that Korea's financial liberalisation is being pursued, not because of pressure from abroad, but because of the Korean government's need to facilitate the economy's development and interna-

tionalisation. Accordingly, financial liberalisation is being pursued in keeping with Korea's economic conditions.

It is true, however, that some trading partners have at times voiced concerns about the pace and extent of financial liberalisation.

I feel that most of the requests from major trading partners have already been reflected in the process. To be sure, some remaining requests will be accommodated in the long run as the Korean economy further develops.

It is very difficult to accommodate requests that are either unreasonable or way out of line with the current level of Korea's economic development. I should also point out that excessive and undue pressures would end up backfiring and hamper the very process of liberalisation.

John Ridding and Steven Butler



Rhee: 'stability of the economy is an important prerequisite'



Like a small child,
a victim of Alzheimer's Disease
can get lost and not know
the way home.
He may not remember his phone number
or his name. He may wander off
in the middle of the night
or in the dead of winter.
He may forget to wear shoes or a coat.
The Samsung Group
has developed the technology
for a computerized monitoring system
which will one day make it possible
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